

ALASKA GAS PIPELINE PERSPECTIVES:
HISTORY, CURRENT PERCEPTIONS AND POTENTIAL FEDERAL
INFLUENCE RELATED TO STATE FINANCIAL PARTICIPATION

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FOR THE

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JUNEAU, ALASKA

FEBRUARY 15, 1979

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February 13, 1979

DATE DUE

Honorable Bill Miles, Co-Chairman
House Resources Committee
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Juneau, Alaska 99811

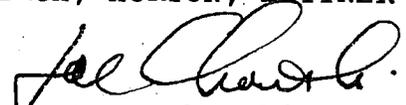
Dear Mr. Co-Chairman:

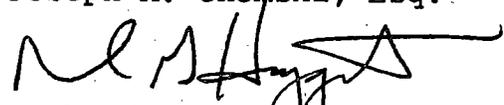
Pursuant to the contract of October 16, 1978, as amended on December 27, 1978, between the Legislative Affairs Agency, State of Alaska, and Birch, Horton, Bittner and Monroe, and the letter from Mr. Gregg K. Erickson of October 16, 1978, designating you as project director, herewith are two copies of the Preliminary Report to the Joint Interim Pipeline Committee. We look forward to your comments and suggestions on how best to proceed with preparation of the Final Report.

With best wishes,

Sincerely,

BIRCH, HORTON, BITTNER & MONROE


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Executive Summary

Because of the volume of materials contained in the Preliminary Report, the following summary results of our research have been prepared for each of the twelve specific areas of investigation enumerated in the annex to the contract of October 16, 1978.

SECTION I.

- (a) To what extent is Alaska's financial participation in the project as described in President's decision still "expected"?

Our research indicates that there is, in fact, not a general expectation that the State will financially participate in the pipeline project. In almost all cases, those contacted in the course of this study exhibited an awareness that the State's commitment to financial participation, to the extent that it existed at all, was solely to the El Paso project.

- (b) Is Alaska's financial participation perceived to be a vital element in the project's success?

A majority of responses received indicated a belief that Alaska's participation is not vital to project success, although most respondents indicated that it would be "helpful".

- (c) To what extent are the proposals for State financial participation put forward by Northwest considered "appropriate" avenues of State participation, considered in the context of the President's Decision, Congressional findings, and events of the last year?

A thorough going knowledge of Northwest's proposals to the State of Alaska was not generally in evidence. Most respondents were aware generally that such approaches had been made; many were not aware of the technical aspects of the proposals. Some negative responses were received from Congressional sources, but on balance, few respondents expressed strong feelings on this issue. Since a significant majority expressed the view that federal loan guarantees or other federal assistance would be necessary for project completion, this general type of subsidy approach was not viewed with any particular alarm.

- (d) To what extent has action by the State of Alaska establishing a pipeline bonding authority, as requested by Northwest pipeline, fulfilled the "obligations" of the State (as perceived by federal policymakers) with respect to financial participation?

Because we did not find that there is a general "expectation" regarding Alaska's financial participation, this question is largely moot. As is noted in the body of Section I of this Report, the only clear statement on this area was made by Northwest officials, who said that both debt and equity participation are now required.

- (e) To what extent do federal policymakers consider Northwest's proposed utilization of tax exempt bonds, requiring an amendment to Section 103 of the Internal Revenue Code, an appropriate response by the company to the President's Decision and/or the provisions of the Alaska Natural Gas Transportation Act?

As with Item (c) above, respondents in general (excepting some Congressional sources) exhibited no great hostility to the idea of an amendment to Section 103 of the Internal Revenue Code.

- (f) What are the prospects for enactment of such an amendment to the Internal Revenue Code?

All respondents indicated that enactment of such an amendment would be a difficult process. However, a significant number stated their belief that under the right circumstances such an amendment could pass despite the prospective difficulties.

- (g) In the event that the project cannot be financed as currently contemplated by Northwest, what is the likely response by the federal government?

The great majority of respondents indicated that provision of federal loan guarantees would be the most likely federal response. Project abandonment was mentioned in only a few cases as a likely outcome.

SECTION II.

- (a) The background to the President's Decision selecting the Northwest proposal, in which Alaska's financial participation was assumed. This will include consideration of the public record covering the Decision and particularly those areas of the record to which Alaska contributed.

The President's Decision selecting the Northwest Alaska pipeline project was based more on political and national policy

imperatives, than on the evidentiary record which was available. These imperatives included: the developing national natural gas shortage, the need to facilitate access to Canadian natural gas reserves, the requirement that the project selected be acceptable to the Canadian government, the requirement that the project selected have the least cost impact on U.S. natural gas consumers, and the requirement that the project selected be privately financed. With the exception of the requirement for private financing, the Alcan proposal was deemed to be the most acceptable of the three alternatives. To meet this problem, federal policymakers minimized or ignored the evidentiary record developed at the Federal Power Commission with respect to financial problems, and adopted the doctrine that the State of Alaska and the natural gas producers should assist in financing the project. In short, we believe that the project record shows a process in which factual considerations were made subordinate to preconceived policy requirements.

- (b) Where arguments relating to Alaska participation were advanced as the official positions of organizations (for example, the Treasury Department), a detailed examination of the decision-making process that led up to taking that position.

As noted in the body of Section II, the Treasury Department originated the concept of state financial participation. On the basis of the record that has been made available to us, it seems likely that the Treasury policy was developed on the basis of two basic assumptions: (1) that an Alaska natural gas transportation system could not be privately financed under the sponsorship of

the American natural gas industry, and (2) that the federal government would not assist in such financing as a matter of policy. Since construction of such a natural gas transportation system was a national policy objective, it was necessary to conceive of other parties to participate in the financing. The oil producers and the State of Alaska were both the most logical and politically vulnerable group available to fill this gap. As is also noted in the body of Section II, Treasury has not provided us at this writing with the internal documents underlying their original policy determination on State participation. This material has been requested under the Freedom of Information Act and will be provided to the Committee as soon as it is made available to us. In the event that the available record is not furnished to us under the Act, we plan, subject to direction by the Committee, to appeal such a decision.

- (c) A determination of how and under what circumstances there developed among federal policymakers the apparent perception that Alaska had committed itself to support financially the proposed El Paso system.

As is noted in Section I, there is only limited perception in Washington that Alaska made an actual commitment of financial support to the El Paso project. However, to the extent that such a perception exists, it arises from a series of State actions during the Spring and Summer of 1977. During this period, it was apparent that the El Paso project, which the State had supported throughout the proceedings, would probably

not be selected. Also, during the Federal Power Commission proceedings during 1976 and early 1977, Alaska had been chided repeatedly for its perceived failure to be cooperative and supportive of the proceedings in a variety of areas, including its policies with respect to oil and gas conservation, royalty natural gas and amelioration of some social and economic impacts of pipeline construction. In an effort to promote prospects for the El Paso project and to, in general, adopt a more positive approach, the State announced that it was seriously considering providing some form of financial support to the El Paso project. The most explicit statement made by a State official on this matter is a letter written by Commission of Revenue Sterling Gallagher to the Treasury Department on July 18, 1977. The text of this letter is contained in the body of Section II. In our judgment, after a survey of the record pertaining to this matter, it seems likely that the "perception" of Alaska's commitment to the El Paso project exists largely in the minds of those federal officials who are committed as a matter of policy to forcing Alaskan participation in the Northwest project in order to promote private financing. To the extent that Alaska is deemed to have made such a commitment to El Paso, the ability of the State to resist pressures to similarly assist Northwest is reduced. We believe the factual record as set forth in Section II supports this contention.

- (d) An analysis should be made of official and unofficial statements by State officials before Congressional committees or to other national policymakers which might pertain to Alaska's position with respect to

construction of the Alaska natural gas transportation system, particularly with reference to those statements bearing on Alaska's responsibilities for management of the Prudhoe Bay reservoir.

The basic State position before all government bodies during the course of these proceedings was that Alaska was seeking: maximum economic benefit in terms of direct construction impacts during pipeline construction, minimum social impacts and economic costs arising from pipeline construction, maximum and assured access to its royalty share of natural gas, and unimpeded authority to exercise its sovereign rights with respect to resource development and management policies. In terms of its reservoir management responsibilities, the State was cautious to the point of being accused of obstructionism in committing itself to any minimum level of producibility from the Prudhoe Bay reservoir.

SECTION III.

This Section will examine the full spectrum of means the federal government might conceivably use to induce the State of Alaska to contribute its physical resources to the construction of the Alaska natural gas transportation system. These means should include both direct and indirect federal actions, and should examine in at least a cursory way all those areas where the federal government exercises or could exercise leverage on the State. Detailed examinations to be devoted to those areas where federal action in this context is most likely.

Not surprisingly, a review of possible areas of federal leverage over the State revealed an enormous range of possibilities. We have concluded, because of its reliance on the federal government in so many areas, the State of Alaska is almost uniquely vulnerable to coercive federal pressures, if the government chooses to apply them. A detailed survey of such areas of leverage is contained in Section III of this Report. Broadly speaking, however, we believe that if federal pressure is exerted upon the State, the most likely avenue would be via administrative or regulatory pressures exerted in the energy area. Because of the State's high degree of dependence on energy related revenues as well as the federal government's enormous authority over energy matters, we believe that coercive or punitive actions with respect to oil or natural gas issues of significance represent the single highest danger to the State, in the event that it chooses not to financially participate in the pipeline project. Key areas of State energy interest, and possible coercive federal actions on such interests, are discussed at some length in Section III. It should be noted, however, that while the State is very vulnerable to federal pressure, it is by no means clear that such pressure will in fact be exerted. As became obvious after completing Section I of this Report, there is not a general perception in Washington that the State has a duty or obligation to financially participate in the pipeline project. While it may be politically convenient for senior officials of the Department of Energy to postulate such an

obligation, their ability to punish the State could be limited if that view is not generally shared in the energy policy bureaucracy and by the U.S. Congress.

Page 10

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REPORT TO THE JOINT INTERIM
PIPELINE COMMITTEE
THE ALASKA STATE LEGISLATURE

Section I

Pursuant to the annex to the contract between the Legislative Affairs Agency and Birch, Horton, Bittner and Monroe of October 16, 1978, Section I will address the following specific points:

1. To what extent is Alaska's financial participation in the project as described in the President's decision still "expected"?

2. Is Alaska's financial participation perceived to be a vital element in the project's success?

3. To what extent are the proposals for State financial participation put forward by Northwest considered "appropriate" avenues of State participation, considered in the context of the President's decision, Congressional findings, and events of the last year?

4. To what extent has action taken by the State of Alaska in establishing a pipeline bonding authority, as requested by Northwest Pipeline, fulfilled the "obligations" of the State (as perceived by federal policymakers) with respect to financial participation?

5. To what extent do federal policymakers consider Northwest's proposed utilization of tax exempt revenue bonds, requiring a Congressional amendment to Section 103 of the

Internal Revenue Code, an appropriate response by the company to the President's Decision and/or the provisions of the Alaska Natural Gas Transportation Act?

6. What are the prospects for enactment of such an amendment to the Internal Revenue Code?

7. In the event that the project cannot be financed as currently contemplated by Northwest, which of the following responses by the federal government is most likely?

- a. Provision of federal loan guarantees;
- b. Direct federal financial participation other than in the form of federal loan guarantees;
- c. Voiding of Northwest's franchise in favor of another private sector company;
- d. Project abandonment;
- e. Other response.

Section I interviews and contacts with various federal officials are arranged on the basis of the agency or branch of government they represent. Section I concludes with results of interviews and contacts with officials who were involved with policy development during the selection of the Northwest proposal and who consequently have additional perspective on the question of State and federal government financing. In most cases these individuals are no longer directly involved in the policy process with respect to the pipeline.

On a day to day working basis, the Federal Energy Regulatory Commission remains the federal agency most directly

involved with the Northwest Alaskan Pipeline project. And, within the Federal Energy Regulatory Commission, ongoing monitoring of the project is conducted by the Alaska Gas Project Office. The Director of that office is John Adger.

Adger stated that during the period 1976-1977 Alaska, in his judgment and recollection, never made a firm commitment to financially participate in the project. His recollection is that statements of State policy on this issue were made primarily by Revenue Commissioner Sterling Gallagher. However, there was always the understanding that prior to any State financial participation, State legislative approval would be necessary. According to Adger, most of the discussions with respect to Alaska's possible role in financing took place with the Treasury Department and dealt with technical questions concerning possible forms of State participation (i.e., debt, equity, guarantees, etc.). He stated that his recollection was that Alaska expressed interest primarily in helping the El Paso project. Adger stated that in his judgment, Alaska's participation would be helpful in expediting the project as a whole, but that it would not be essential.

Adger declined to comment on the Northwest proposals for State financial participation (i.e., the bonding authority) either as to appropriateness or the extent to which State action on the bonding authority has fulfilled any obligations of the State with respect to financial participation. He also declined to make an estimate of the chances of Congressional amendment to Section 103 of the Internal Revenue Code. He

did note, however, the use of 103 funding for the Trans-Alaska oil pipeline facilities in Valdez and that consequently there was some precedent. Adger indicated his belief that financing of the project would be difficult, at best. He reiterated what amounts to official federal policy on the question of how the government should respond to these financing difficulties:

1. Rolled-in pricing to insure marketability.
2. Both expedited and favorable consideration of the administrative and regulatory matters facing the project.

Adger stated his belief that most of FERC's important financing related decisions would be made within the next six months.

In the event private financing does not materialize, Adger believes that primary federal interest will be in inducing producer participation. In his judgment, federal loan guarantees or other federal support should be considered only as a last resort measure. He also indicated that he does not see the role of the federal government as being to coerce the State into financial participation, although he conceded that the leverage for such coercion exists, chiefly via federal regulatory authority over matters relating to producer and State oil and gas income.

Also interviewed in the Alaska Gas Project Office was Bob Anderson, FERC economist. Anderson stated, that in his view, establishment of the bonding authority by Alaska had committed the State to financial participation in the project. Beyond that however, he, like Adger, declined to comment on

Northwest proposals for State financial participation or upon Congressional prospects for passage of amendments to Section 103. Because of his reluctance, he did not distinguish between the question of State establishment of the bonding authority and the separate question of equity or equity-related financial participation. He did say, however, that he definitely did not believe Alaska's participation was necessary for project success. He believes the project can be privately financed if current federal policies are pursued. Anderson doubts that the project will be abandoned, even in the event of short-term (in his view) difficulties; rather, he believes that the concept of an Alaska natural gas line could go dormant for some period. He made indirect reference to the developing Department of Energy policy to discourage LNG import projects as well as the possibility of establishing incremental pricing for major Canadian or Mexican imports. With such federal rules he believes that Alaska gas, coming in at an estimated \$3.00 per mcf (on a constant dollar basis, and assuming no more than a 30% cost overrun on the pipeline) would be marketable. In his judgment, Schlesinger, and by reference the Administration, is entirely serious in placing a continued high priority on this project and upon domestic resource development generally.

In contrast to both Adger's and Anderson's views, Tony Jiorle, who was Staff Financial Advisor of the Federal Power Commission during the period 1976-1977 and who is currently in the Office of Pipeline and Producer Regulation of FERC,

stated that he is very doubtful that the pipeline is economically viable or that it can be privately financed. Jiorle cited the increasing supplies of relatively cheaper natural gas potentially available in Canada and Mexico as primary reasons for his conclusion, and apparently places less faith than does Anderson in the prospects for federal regulatory action to price these potential competitors for Alaska natural gas out of the market. Jiorle's recollection is that the State made no firm commitment on financial participation during the FPC proceedings. His judgment at the time, to which he testified as a staff financial witness, was that the pipeline should and could be privately financed by the pipeline companies and the producers--but he did not include Alaska in his estimates. Based on the current market situation, Jiorle feels that the only way the pipeline can now be funded is with federal loan guarantees. Since Alaska cannot guarantee the entire debt of the project, Jiorle believes that State participation is not essential but might be helpful. He raised the argument that Alaska is potentially a logical participant because of its ownership of the royalty gas, although he conceded that ownership of royalty gas does not, as a general rule, automatically imply financial participation in the transportation system necessary to market that gas. Jiorle believes that the State's establishment of the bonding authority was an appropriate response, given Northwest's request, but that he is opposed to the concept of State or federal government equity investment in the project

(as distinct from some form of debt involvement or debt guarantee). Jiorle, like many others contacted, indicated that he believes the only realistic alternative in the event that private financing is not available, would be federal loan guarantees. He believes, however, that such guarantees might be several years in developing in the event private financing fails because of the current oversupply of natural gas, its relative price, and potential delays in getting guarantees approved.

Yet a third view was expressed by Wade Sewell, Acting Director, Division of Analysis and Policy Development of the Office of Regulatory Analysis of FERC. Sewell stated that in his judgment, the State did not commit itself to financially supporting a gas pipeline, nor does he believe it is necessary for the State to participate now. Generally on the basis of profitability, he believes an equity investment in the pipeline might prove to be attractive for Alaska since the return to equity on the pipeline, assuming no major cost overruns, could be very attractive. Nonetheless, he believes the pipeline can be privately financed.

Sewell did not address the question of Section 103 exemption directly, saying rather that he believed that it might be desirable for the Northwest franchise to be transferred to another entity. He believes there is a good chance that Northwest will go to Congress asking for loan guarantees, saying that FERC made it impossible to achieve private financing because of regulatory actions. He cited

the terms of the tariff, conditioning treatment costs, and the incentive rate of return as three key areas where there are regulatory disputes between Northwest and FERC. He stated that it could be fifteen months before these issues are laid to rest and the question of private financing can be definitely settled.

Both Adger's and Anderson's comments seem to be a rather careful enunciation of official Administration strategy and policy on the Northwest project. A senior FERC official with major policy responsibility in the project area, and who requested to speak off the record, expressed a somewhat different view. In this official's estimation, there was "no way" that the Alaska natural gas pipeline project could be successfully financed without some form of consumer or federal guarantees. This is without respect to either federal regulatory actions, or State actions on financing matters. He expressed the view that the project's growing difficulties were becoming a political consideration, to the extent that various federal agencies and officials who had publicly and strongly supported both Alcan and the private financing concept, were facing prospects of a failed project and the possibility of being blamed for that failure. In this official's judgment, there was virtually no likelihood that Northwest would receive any sort of federal support or subsidy from the project, including an exemption to Section 103, due to the following factors:

1. The current "bubble" of natural gas oversupply in Canada, coupled with Mexico's announcement of significant

reserve additions, has resulted in growing doubt in the Congress regarding the desirability or need for near term development of Alaska natural gas reserves. He believes that Congressional attitudes would be key in any federal guarantee or subsidy approach.

2. The increasing perception that the price of Alaskan gas may well be substantially in excess of that charged for Canadian or Mexican gas is also raising potential problems in Congress.

3. The Carter Administration's "austerity budget" is not likely to make members of Congress enthusiastic about the Administration proposals for multi-billion dollar industry subsidies--especially when such subsidies will be used to support relatively high cost natural gas sources.

To counter these perceptions, the Department of Energy is making a push to sell the concept that Alaskan natural gas over time will be substantially less expensive than either Canadian or Mexican imports. The DOE position is based on the assumption that while Alaska gas will suffer from a price disadvantage in the project's early years, its price will eventually decline as the pipeline is depreciated. Conversely, prices for Canadian and Mexican gas are assumed to be directly linked to OPEC price levels. To make the case for the financial attractiveness of Alaska gas over the life of the project, DOE assumes OPEC price increases of between 2.5 and 8.0% annually, in real terms, from the mid-1980's to 2005. These estimates result in oil prices, in 1979 dollars, of between \$25 and \$35 per barrel. The FERC

official with whom we spoke questioned some of these assumptions underlying the DOE estimates. He also questioned whether such analysis would be persuasive within the context of Congressional consideration of possible federal guarantees.

At the Department of Energy, officials contacted hewed very closely to Schlesinger's and the Administration's public position. John Treat, Director, Resources Trade Division, has responsibility for energy import matters relating to domestic supply considerations. Treat stated his strong belief that there will be a market for Alaskan gas, based on the aforementioned analysis performed in DOE (i.e., that over the long run, international price increases will make Alaskan natural gas relatively attractive over the life of the project). Treat reiterated the Administration's strong support for the natural gas pipeline and enumerated the steps the Administration is taking to ensure marketability and promote financibility. In Treat's view, FERC is doing everything that can be expected to facilitate financing matters, while the Department of Energy is taking the following steps to promote marketability relative to potential imports:

1. Incremental pricing for Mexican gas;
2. Refusal by DOE to grant approval for long distance LNG imports.

Treat believes that the necessary FERC decisions will be made within the next six months, and that most of the delay in the project to date has not been due to regulatory problems, but rather the delay in passing the Natural Gas Act. He said DOE intends to make it clear that Alaskan natural gas has a significantly

higher priority than does Canadian or Mexican gas. DOE also views the prebuilt sections as being highly important to project completion because of the revenues these sections will generate and because they will reduce the burden of financing for the remainder of the system. He stated that it will be DOE policy to go slow on other Canadian gas import questions until the prebuilt portions of the line are firmly underway. Such a policy will, in DOE's judgment, further encourage the project by blocking efforts to drain off Canadian gas which would otherwise go through the southern sections of the Alaska natural gas pipeline.

Both because it is Administration policy, and because of the previously mentioned convictions with respect to the basic marketability of Alaska natural gas, Treat stated his belief that the project will in fact be privately financed. With respect to Alaska financial participation, he indicated that it would be helpful but not essential. He had no comment to make relative to the appropriateness of Northwest's specific proposals for Alaska participation. In the remote event that the project could not be privately financed, he believes that Administration and Congressional convictions that the project is in the national interest would eventually result in federal loan guarantees being granted.

Comments received by Ken Kincel and Charles Mylander, Directors of DOE's Office of Integrative Analysis and Division of Mid-Range Analysis, respectively, expressed a slightly different view than did Treat. They indicated that the current supply overhang from Mexico and Canada may well result in a several year

delay for the project. They cited the policy of discouraging LNG imports and incremental pricing for some categories of imported gas, but were not entirely confident that such policies would be effective in aiding financing of the Alaska project. Neither Kincel nor Mylander would express opinions about Northwest's financing prospects or the question of State participation, indicating that it was Administration policy that the line be privately financed and they had no basis on which to differ with that policy.

Bruce Matlock, Office of Government Financing, Treasury Department, stated that there has been no reopening or reconsideration of the conclusions reached in the Treasury report to the President of July 1977. Consequently, Treasury's position still is that the pipeline can be privately financed, and a failure of private financing would raise serious questions about the desirability of the project. Matlock stated that in his judgment, the State's commitment to the El Paso project, in terms of financial support, was very firm. He also stated that it was his belief that that commitment was only to the El Paso project, and did not extend to either Arctic or Alcan. He believes Alaska's participation would be important to the project but also observed that that same argument could be advanced in terms of Canadian national or provincial participation. In the final analysis he believes that the "need" for Alaska participation can only be actually determined by attempting to finance without it. In terms of Northwest's proposal for tax exempt revenue bonds, Matlock stated that Treasury position on this is typically to

oppose such subsidy approaches. Because there is no proposal before Treasury, he declined to make a direct statement on Treasury policy toward a 103 exemption. He did observe, however, that such an amendment would have "problems" getting through Congress.

Also at Treasury, Dell Perry and Bill Steiger, Office of the Deputy Assistant Secretary for Domestic Economic Policy were contacted. They indicated that the July 1977 report to the President was official Treasury position with respect to Alaska gas pipeline financing. And, to their knowledge, there is no effort underway to reopen or challenge these conclusions. In their judgment, Treasury will be opposed to any federal loan guarantees for the project and they believe that the White House would be opposed to such guarantees also. They had no knowledge of the level of Alaska's "commitment" to the project in earlier years but stated that in their judgment Alaska financial participation is not yet necessary. They also stated that there was a real question of whether such participation would in fact ever be necessary.

Very few of the Government officials or representatives contacted in the course of this study indicated a belief that Alaskan participation in the financing of the Northwest pipeline was a vital matter. However, interviews with Northwest Alaska's Washington office elicited a different response. Edwin Kuhn, Director of Government Affairs for Northwest Alaskan Pipeline Company, and Howard Butner, Treasurer, Northwest Alaskan Pipeline Company, indicated their belief that Alaska's participation is now absolutely necessary. They said that a year ago, when Northwest

was making its initial presentations to the Alaska State Legislature, that such participation was only desirable and not critical. In their judgment, delays by the federal government and rising interest rates have resulted in the situation that Alaska must participate in both the debt and equity portions if the project is to be privately financed. Kuhn and Butner indicated that this decision by Alaska must be made during this session of the Legislature if it is to be effective. According to them, Northwest's financial advisors are also taking the position that State financial assistance is now an essential matter.

Kuhn and Butner stated that FERC decisions on such vital matters as the incentive rate of return question must be made before the end of June in order for Northwest to receive or secure financing. Both the FERC decisions and Alaska's participation must be in place by that date, if the project is to proceed on schedule. They indicated that producer involvement on the debt side would be a follow-on step to these initial moves. According to Kuhn and Butner, Northwest would seek federal support only as a last resort. They expressed the fear that federal support would only be provided under terms and conditions that would be disadvantageous both to the companies and to the State of Alaska. An amendment to Section 103 of the Internal Revenue Code continues to be Northwest's goal in this Congress, and the official Northwest position is that this could still be accomplished. They conceded that prospects for such an amendment are not now as good as they had hoped one year ago. In the event Congress does not approve a 103 exemption, they stated that they might make other requests

to the State for financial support, perhaps in the form of debt guarantees. Kuhn and Butner also cited numerous advantages which would accrue to the State in the event of pipeline construction, which are not enumerated here.

Also contacted to obtain Northwest's views on this question was Bill Foster, lobbyist for Northwest Pipeline and an attorney with Patton, Boggs, and Blow. Like Kuhn and Butner, Foster stated a considerably stronger case for Alaska financial support than was expressed by federal officials contacted. Foster stated that it is his belief that the Administration, Congress and Northwest all expect some type of participation by Alaska. This expectation exists, in his view, because at the time of the decision in 1977, the State did not actually reject participation as was suggested by the President and the Congress. He also cited Alaska's offer to assist in El Paso financing, citing the Sterling Gallagher letter of July 18, 1977 (the text of that letter is contained in Part II of this report). He stated that Alaska's participation is becoming increasingly necessary due to the less-than-positive federal actions with respect to the 103 Amendment and on necessary regulatory approvals. Foster expressed continued hope that a 103 exemption could be obtained despite the failure in the last Congress. He said that the previous failure was primarily due to poor timing and lack of proper preparation for the amendment's introduction. Northwest anticipates that Schlesinger will support a 103 exemption and are hopeful that Carter might add his support. They indicate that Treasury Secretary Blumenthal is adamantly

opposed to such an approach, however. According to Foster, Northwest has already contacted Senator Gravel, who has said that he will hold hearings on a 103 amendment before his subcommittee on Energy and Foundations of the Senate Finance Committee within the next few months. Foster would not speculate on what approach the Government might take in the event the project fails to finance privately, stating that such a decision could only be made after such a failure occurred and after analyzing causes of such failure.

Tim McKeever, Administrative Assistant to Senator Ted Stevens, stated that he believed there was an expectation of some Alaskan participation in the project because of the State's actions with respect to establishment of the bonding authority last year. He also said in his judgment there has been no commitment by the State to any equity investment in the project. His perception is that Alaska's participation would be helpful, but that he still believes private financing without State assistance is possible. McKeever expressed some criticism of Senator Gravel's handling of the proposed amendment to Section 103 during the last Congress. In his judgment insufficient preparation was made, especially with respect to key members of the House of Representatives and on the Senate Energy Committee. He stated, however, that with the right sort of groundwork, an amendment to 103 is possible.

In the event that private financing is not successful, McKeever said that he believed there would be increased pressure on the State to participate, at least in the short run. Over a

longer term he believes federal loan guarantees would be provided, but that such federal guarantees might exact penalties in terms of some State interest in the natural gas. He doubts whether under any circumstances there would be federal equity participation or revocation of Northwest's franchise to build and operate the pipeline. In the event that federal pressure was brought to bear on the State in terms of financial assistance, McKeever cited (d)(2), petroleum reserve #4, and the proposed Alaskan oil swap as areas of immediate State interest where federal pressure could be applied. He concluded by questioning whether Alaska should be involved at all in the equity portion of the project.

Not surprisingly, Deming Cowles, Legislative Aide to Senator Mike Gravel, expressed somewhat different views than did McKeever. He does not believe there is a general perception that Alaska is committed to financial support of the pipeline. He stated that if there is, in fact, a general perception that the State has committed to participate, it arises from State actions with respect to the El Paso project. Cowles indicated that FERC regulatory decisions were not only necessary before Northwest can proceed with financing arrangements, but also must precede any State commitment with respect to funding. These approvals are also necessary before a 103 amendment could be seriously considered in the Congress. He stated, in his judgment, a change in the country's energy supply situation (specifically referring to increasing difficulties in terms of Iranian oil production) could provide a significant impetus to the Northwest project.

He believes the most likely federal response in the event

that private financing cannot be arranged would be the provision of federal loan guarantees. He expressed the judgment that the Congress might prefer a 103 amendment to a guarantee approach if the project gets into trouble. In terms of possible federal coercion of the State, Cowles stated that there are obviously a wide variety of avenues the federal government could take. The most obvious, and most likely in his judgment, would be federal administrative and regulatory delay of various State interest matters pending before the Government. He indicated that such a policy of implicit negativism and harassment would be more likely than major and identifiable federal actions.

Danny Boggs, Professional Staff Member of the Senate Committee on Energy and Natural Resources, was at the Federal Power Commission during that agency's consideration of the pipeline projects. He said that the FPC at that time did not consider Alaska's financial participation a prerequisite for a successful pipeline and he feels that there is no general perception currently that the State has made such a financial commitment. If any commitment was in fact made, it was only to the El Paso project. He did indicate, however, his belief that the level of Alaska's participation could have an effect on the marketability of Alaskan gas, and hence might be in the State's interest. He personally expressed no opposition to Northwest's proposal for tax exemption, and said that he had little feel for whether such an amendment would be approved by the Congress. In general he believes that the Senate would be more likely to pass such a proposal than would the House of Representatives. In his judgment, federal loan guarantees are the most probable

alternative to private financing.

William D. Braun, Counsel to the House Interstate and Foreign Commerce Committee's Subcommittee on Energy and Power stressed that he was expressing his personal views and was not speaking for the Committee. Braun indicated that he does not know whether the State has committed its financial support of the Northwest project or not. However, he clearly recalls that at the time of the Congressional hearings on the President's decision Alaska did not commit itself to financial participation but rather indicated that it was merely studying such an option. Braun said it is currently too early to decide if Alaska's participation is necessary for project success. At the present time, however, it would appear that such participation is not necessary based on continued expressions of confidence in the project by the Administration. He also cited the President's decision which stated that Alaska participation was not an absolute requirement, as well as Northwest's testimony that it could finance the pipeline without Alaska.

He believes that a 103 amendment would have a difficult time in Congress. Because of the possible oversupply of natural gas from Canadian and Mexican sources, he thinks the entire issue could go dormant for several years without any direct resolution at all.

Bill Horn, Minority Staff Consultant on Alaska Matters, for the House Interior and Insular Affairs Committee, stated his belief that Alaska had not committed itself to financial support for the pipeline. He also expressed the belief that

in his judgment, Northwest (and El Paso and Arctic for that matter) wanted state and federal assistance in financing all along, even though they claimed in testimony that they could do without such assistance. In his view, Alaska's aid would be icing on the cake since it is the federal assistance which will be critical to the pipeline's success. He believes a 103 amendment might have some chance of passage provided that Congress could be convinced that private financing would in fact work with such an amendment. In his view it would be a cheap way to get the project going, at least relative to the possible expenses and risks involved in a federal guarantee. In the event that private financing cannot be put together, he believes abandonment of the project would be a distinct possibility, especially given developing surpluses of natural gas in Canada and Mexico. Federal loan guarantees would be made available by Congress, he believes, only if it was absolutely clear that this was the only remaining barrier to successful project completion.

Peter Hunt, staff member on the House Interstate and Foreign Commerce Committee, expressed slightly different views from William Braun. He does not believe that Alaska has committed itself to the project at this point unless something private has been worked out between Alaska and Northwest of which he is not aware. He has no particular feeling on whether or not the State should participate and he doubts that their participation would be essential. On a theoretical basis, Hunt has no objections to Northwest's proposals; however, he indicated it would be up to the State to decide if it would be "appropriate" for

them to participate in such a fashion. He does believe, however, that a Congressional amendment to Section 103 will be difficult to obtain. Hunt indicated his belief that perceptions on Capitol Hill are that the natural gas industry received a great deal in the recently passed Natural Gas Policy Act and that further concessions on natural gas issues would be opposed. He believes the success or failure of a 103 amendment would hinge on political perceptions of exactly who the parties being benefited were: the producers, pipeline companies, State and national interests, or consumer interests. He thinks Congress would be especially skeptical of the 103 amendment at this time because of the developing natural gas supplies in Canada and Mexico. In the event private financing cannot be arranged, he believes that there will not be federal loan guarantees provided. Rather, in his judgment, given the current supply situation and political perceptions on Capitol Hill, Congress would be willing to accept an indefinite postponement of the project.

Mike Harvey, General Counsel and Betsy Moler, Staff Assistant to the Senate Energy and Natural Resources Committee indicated that in their recollection Alaska very carefully avoided committing itself to financially participating in the natural gas pipeline project. They said that as far as the Committee is concerned, they believe the attitude is: it's fine if Alaska does participate, but there is no expectation that they should participate. At the time of Congressional consideration of the President's decision, it was thought that if the State did become involved, it might possibly be through contributing to the capital costs involved in a conditional plan for North Slope natural gas.

However, at the time of these Committee hearings, Alaska's involvement was not deemed to be essential to the line's success.

Both Harvey and Moler said that they definitely do not believe Northwest proposals with respect to tax exempt bonds are an appropriate approach to financing the project. In their judgment, the 103 amendment is simply a backdoor attempt to gain federal assistance. They cited explicit Congressional language in the Conference reports on the Natural Gas Policy Act stating that rolled-in pricing for North Slope gas would be the only subsidy, direct or indirect, that would be provided for the project. They cited informal Treasury estimates that the tax exempt bond proposal could cost Treasury \$80 million per year and said that with the current budget pressures in Congress, such an amendment would be very difficult to pass. They also conceded, however, that without some form of Congressional action it may be extremely difficult for the project to be built. In the final analysis it boils down to Congressional perceptions regarding the national interest matters involved in completion of the line. In the event that Congress decides that such a natural gas pipeline is a matter of vital concern to the country, almost anything will be possible, including the option of actual federal ownership (during this statement, joking reference was made to the possibility that the Corps of Engineers could construct the line). On balance, however, they stated that if private financing was not developed, then some sort of federal guarantee of a portion of the debt would be a more likely outcome than project abandonment.

Nahum Litt was administrative law judge at the Federal Power Commission during the period 1975-1977, and handled the original FPC hearings on the case. Litt is now Senior Administrative Law Judge for the Civil Aeronautics Board, and hence is no longer involved in energy policy matters. He was contacted, however, because of his extensive involvement in the proceedings through 1977.

Litt stated that he had concluded during the hearing process, and continues to believe today, that federal loan guarantees are an absolute necessity for the success of any North Slope natural gas pipeline project. Litt said that it was clear in 1977 that the State had made no binding commitment to financially support any of the parties of the proceedings, although it had indicated its willingness to consider such support for both El Paso and Northwest. He believes that State participation would not allow the line to be privately financed in and of itself, but believes that such participation would still be a valuable contribution. Specifically, his reasoning is that if Alaska were to participate, this would get the financing process moving in the private sector as well. In his judgment it would become apparent relatively quickly that the necessary financial resources were not available and the federal government would be faced with a clear choice of providing adequate financial assurances or letting the project die. Litt had no direct comments on the Northwest proposals themselves. He did state that he believes Treasury will not change their anti-subsidy position until a political deal for such subsidies is firmly in place. In his judgment, Treasury's perception of themselves as caretakers of

the public purse will not permit the Department to take an initiative on this issue.

Also contacted were Michael Holland, former assistant to John Bennett, a senior El Paso official on the Alaskan pipeline project, and Louis del'Osso, who was Project Manager for El Paso's Alaska project. Both Holland and del'Osso recalled that Alaska had expressed a willingness to participate in El Paso's project if such participation was essential. El Paso's judgment at that time was that Alaska involvement would be a helpful but not critical factor in their project. They both pointed out that El Paso had been on the record for some time, as believing that none of the projects could be financed without some form of federal assistance, and that even the most generous sort of State assistance would not replace federal involvement in the project.

Finally, Robert Loeffler who was the attorney representing the State of Alaska at the Federal Power Commission proceedings said that the State did not commit itself to any financial support during the proceedings. Beyond that, Loeffler had few other comments, as he is no longer familiar with the proceedings and has not been following Northwest's proposals to the State. He did make the general observation, based on his lengthy experience in regulatory practice in Washington, that he believed federal loan guarantees would be the most likely outcome in the event private financing is not available.

REPORT TO THE JOINT INTERIM
PIPELINE COMMITTEE
THE ALASKA STATE LEGISLATURE

Section II

As directed by the annex to the contract between Birch, Horton, Bittner & Monroe and the Legislative Affairs Agency of October 16, 1978, this section of the Report will address the following specific areas:

1. The background of the President's decision selecting Northwest's proposal, in which Alaska's financial participation was assumed. This will include consideration of the public record covering the decision and particularly those areas of the record to which Alaska contributed.

2. Where arguments relating to Alaska's participation are advanced as the official positions of organizations (for example, the Treasury Department), a detailed examination of the decision-making process that led up to taking that position.

3. A determination of how and under what circumstances there developed among federal policymakers the apparent perception that Alaska had committed itself to support financially the proposed El Paso system.

4. An analysis of official and unofficial statements by State officials before Congressional committees or to other national policymakers which might pertain to Alaska's position with respect to construction of the Alaska Natural Gas Transportation system, particularly with reference to those statements bearing on Alaska's responsibilities for management of the Prudhoe Bay Reservoir.

While general discussions of the feasibility and desirability of moving North Slope natural gas to Lower 48 markets had taken place virtually from the initial discovery of major oil and gas reserves at Prudhoe Bay, the first overt federal involvement in the question of a natural gas pipeline appeared in the Trans-Alaskan Pipeline Authorization Act of 1973 (87 Stat. 576). Section 302(a) of the Act stated "the Secretary of the Interior is authorized and directed to investigate the feasibility of one or more oil or gas pipelines from the North Slope of Alaska to connect with the pipeline through Canada that will deliver oil or gas to U.S. markets." Subsection (b) directed the Secretary's findings to be submitted to Congress within two years of the date of enactment of the Authorization Act. While the Act directed the Secretary to study various alternatives available for transporting both oil and natural gas from the North Slope, it did not preclude either the Secretary of Interior or other federal agencies from considering applications for pipelines or granting necessary approvals for them.

As a result of Section 302 of the Trans-Alaska Pipeline Authorization Act, two parallel and to some extent competing federal decision-making processes would be in existence from the period November 1973, when the Trans-Alaska Pipeline Authorization Act was passed, through February 1977, when the Federal Power Commission proceedings with respect to the El Paso, Arctic and Alcan projects were terminated by the Alaska Natural Gas Transportation Act of 1976. Thus, while this section of the Report will deal heavily with proceedings before the Federal Power Commission, largely

because these proceedings contain by far the greatest evidentiary record available with respect to a natural gas pipeline for North Slope reserves, it should be kept in mind that the narrative will of necessity move between Federal Power Commission proceedings and Executive Branch and Congressional deliberations occurring parallel to them.

Because of the great administrative and regulatory burden imposed by construction of the Trans-Alaska oil pipeline, the record reveals no active consideration by the federal government of alternative means of transporting North Slope natural gas until mid-1975. However, FPC consideration of applications to transport North Slope natural gas to Lower 48 markets began much earlier. In March 1974, Alaskan Arctic Gas Pipeline, a consortium of American and Canadian companies, applied for FPC, Department of Interior, and Canadian approval of construction of a pipeline system to bring gas from Prudhoe Bay to the Lower 48 states. Under the Arctic proposal, a 48-inch chilled pipeline would go east across the North Slope of Alaska approximately 195 miles to the MacKenzie Delta Region in the northwestern part of the Northwest Territories. From there, the route would run south through Canada to a point near Carolina Junction, Alberta. Here, Canadian gas from MacKenzie Delta and potential discoveries in the Beaufort Sea would be removed and transported to Canadian markets through the existing pipeline system. The pipeline would then diverge with an expanded western leg running south to Kingsgate, British Columbia near the northern Idaho border, and the new eastern leg running to Morley, Saskatchewan on the Montana border. This portion of the line would total 2,305

miles in length and was proposed to have a start-up capacity of 3.25 billion cubic feet per day (BCFD), expanding to carry 4.5 BCFD over a four year period. The northern border pipeline segment of the project was proposed to carry gas to eastern and midwest markets through 1,138 miles of 42-inch diameter pipeline from the Montana/Canadian border terminating in Illinois. Carrying capacity of this leg was proposed to be an initial 1.5 BCFD with a future capacity of 3.0 BCFD. In the western United States, Pacific Gas Transmission and Pacific Gas & Electric proposed to construct 874 miles of 36-inch diameter pipeline from the Idaho/Canadian border to Antioch, California. With the exception of the Alaska and Northwest Canadian portions of the line, the Arctic proposal bore many similarities in terms of routing and proposed market areas to the eventual winner of the pipeline competition, Northwest/Alcan Pipeline Corporation.

In September 1974, El Paso Alaska Company, a subsidiary of El Paso Natural Gas, filed a competing application with the FPC for a proposed gas transportation system to move North Slope natural gas to Lower 48 markets. The Alaska portion of the El Paso system called for construction of 809 miles of 42-inch diameter chilled pipeline, roughly paralleling the Alyeska oil pipeline. The gas would be liquefied at a facility located on Prince William Sound and shipped via 11 LNG tankers to regassification facilities in Southern California. The revaporized gas would then be shipped to markets in the Lower 48 via displacement through existing pipelines and approximately 800 miles of new pipeline. Initial capacity of the El Paso system was estimated to be approximately 1.2 BCFD,

with an eventual capacity of 3.4 BCFD, if additional gas supplies warranted the expansion. Formal Federal Power Commission consideration of the competing applications commenced in January 1975.

The FPC deliberations on the two projects (eventually three, following Alcan's submission of an application in July, 1976) were extensive. Before the proceedings were terminated by Congressional action, the hearing record totaled over 50,000 pages of transcript while exhibits and related supporting material made up over 100 volumes. Following is an approximately chronological description of the FPC considerations with respect to the various financial issues and other major Alaska issues facing the competing pipeline projects.

The potential problems in financing any of the competing projects was recognized early in the FPC proceedings. Specifically, in the Commission staff opening statement, staff stated:

A second area of concern is financing. It has been said that the Alaskan natural gas transportation system will be one, if not the largest single private financial venture ever undertaken on the North American continent. Careful attention should be directed to assure that the necessary capital needed to implement this project can actually be acquired and would not lead to an undue burden on the ultimate consumer or the financial integrity of the sponsoring companies.

While all parties to the proceedings made at least cursory reference to financing in their opening statements, detailed consideration of financing questions did not begin until November 1975. During the intervening ten months from the opening of the proceedings through November, both El Paso and Arctic filed supporting exhibits to their original applications describing their proposed

financing plans. The text of the El Paso submission is contained in Appendix I. Neither the El Paso nor the Arctic exhibits made reference, in any fashion, to possible State financial support for the project.

The details, and possible shortcomings, of the financial plans became more apparent as the project sponsors introduced their witnesses on financial questions. On December 10, 1975, William W. Brackett of Arctic testified with respect to his company's belief that the project probably could not be financed without some form of "government backstopping". At that time Brackett said:

Q. Now, has not Arctic Gas moved to a position where it thinks that it must have government help from both the U.S. and Canadian government to finance its package?

A. "Must" may be a little strong, but I think there is a significant possibility that that would be the case. We think that it is highly unlikely that in the energy project or perhaps other kinds of projects of this size or of the size proposed by El Paso would be certain of raising the necessary financing without some form of government participation. But obviously that can't be a final conclusion.

On January 7, 1976, L. Emery Katzenbach of White, Weld & Company, financial advisors to the El Paso project, testified on what he believed to be the critical elements of a successful project financing:

Q. "What are the two critical requirements of the successful financing of this project?"

A. First, potential lenders must be assured during the financing negotiations, before they will be willing to commit to play a role in the project's financing, that the facilities proposed will, in fact, be

constructed and placed into operation as planned or in the event that the system is not completed, the debt service will nevertheless be met as scheduled. In order to meet this requirement, the shippers will need regulatory sanctions to charge their customers and the ultimate consumers, rates which will assure this result.

Second, assuming the completion of project facilities and the initiation of service, lenders must be assured that project revenues will be sufficient to service the debt as scheduled, regardless of any subsequent service interruption. This assurance can be provided by Commission approval of an "all-events" tariff which I understand El Paso Alaska has proposed in this proceeding."

Katzenbach went on to discuss prospective participants in the project financing:

Q. What assumptions have been used in your work respecting the project's participants?

A. It has been assumed that the certificated Trans-Alaska gas project and its related financing will be undertaken by a group of existing natural gas pipeline and distribution companies, motivated to participate because of their common interest in having a viable transportation system financed and built to move North Slope gas to markets in the Lower 48 of the United States.

On January 9, 1976, Stanley Lewand of Chase Manhattan Bank, another financial advisor to the El Paso Project, gave his assessment of the necessity for a "all-events tariff":

Q. (The question dealt with the necessity of an all events tariff, but took several pages of transcript to express and has thus been condensed.)

A. I would say that if the Federal Power Commission refused to allow the pass-through of debt requirements to the customer by virtue of the tariff, the deal is dead.

Q. In case of interruption. They allow it so long as gas is being delivered, but not during interruption.

A. In case of interruption.

Q. And under those conditions you do not feel that funds would be advanced.

A. My immediate reaction is that under those conditions funds would not be advanced.

Mr. Hargrove: Thank you.

Presiding Judge: Mr. Lewand, would your last answer to Mr. Hargrove change any if the reserves were larger?

The Witness: No, sir.

Presiding Judge: In other words, if the amount to be moved were more significant even than the significant amount there already is?

The Witness: No, sir.

Also on January 9, 1976, there was an illuminating exchange between the Presiding Judge, Paul Connolly, representing El Paso, and R. Clyde Hargrove, representing Arctic, concerning financing issues:

Presiding Judge: . . . I was curious as to whether the Department of Treasury, Commerce, or others have been contacted, Federal Reserve, possibly, since I am sure they are all making studies.

This is not something which is foreign to them. . .

Mr. Connolly: Your Honor, I would strongly urge that the staff seek out someone from Treasury. We have surfaced a point today that has been a long time building. I saw it from the time Mr. Brackett was on the stand fairly early on. I think Arctic Gas has come to the decision for one reason or another that they need governmental guarantees. I think it will

be most interesting to find out whether they will be supported by the Treasury Department in that request.

Presiding Judge: Well, that was a separate question, but I have gotten there.

Later on in this same exchange, Brian Heisler, staff attorney for the Federal Power Commission, stated:

We have had a few informal contacts with the Treasury Department. I want to make that clear. The Treasury Department has contacted us for briefs and written materials. We have not expressed any views to them on the matter. But strangely enough, the question which we have been contacted on was not really the financing side, it was the tariff side.

It is my understanding that the Treasury Department is preparing a legislative study, the gist of which is to suggest possible legislation that the Commission be empowered, regardless of the provisions of Section 4 and 5 of the Natural Gas Act, to approve an all events cost recovery tariff. Now, I would personally love to secure a copy of that study. I am not sure, since the contact occurred sometime ago, what state it is in. I would be willing to contact the Treasury Department again.

The exchange concluded with this exchange between Hargrove and Judge Litt:

Mr. Hargrove: . . . Mr. Connolly made some statements there about the Treasury Department in connection with Arctic Gas having decided that government support was required. At the most, Mr. Connolly's argumentative statements are quite misleading. And I just don't want it to pass without saying something about it.

Presiding Judge: Okay. The issue has again been joined. It will not be the last time in this proceeding.

At this early point in the proceedings, a major point is emerging. Specifically, neither party believed that the project could be financed in any "conventional" sense within the private sector. Despite the sparring between the counsels for El Paso

and Arctic, it will become clear as the record develops, that both the El Paso and Arctic projects would be dependent on some form of subsidy for successful financing; in the case of the former, an "all events tariff" and federally subsidized loans for the 11 LNG tankers, and in the case of the latter some form of "federal backstopping" (a phrase which Arctic witnesses used repeatedly throughout the proceedings, as a catchall, covering many types of possible federal support and/or assistance for the project. Arctic used this as a term of art rather than proposing a specific federal assistance formula itself).

At virtually the same time that the FPC hearing was beginning consideration of the financing problems facing both the El Paso and Arctic projects, the parallel analysis of oil or natural gas pipelines from the North Slope, required by the Trans-Alaska Pipeline Authorization Act, was being completed by the Department of Interior. This report was submitted in its entirety to the Congress on December 15, 1975. The report consisted of numerous sections prepared by various executive branch agencies. One section in particular, dealing with financing problems associated with moving North Slope natural gas to Lower 48 markets, is relevant to this report. This section was prepared by the U.S. Treasury Department at the request of Interior and stated:

State of Alaska

The State of Alaska would be a major recipient of benefits if production of the gas were assured by the building of a transportation system since it would receive a 12 1/2% royalty (which can be taken either in kind or as a percentage of producer revenues) and approximately a 4% production tax. A 2.5 BCFD flow beginning in 1981 and extending through 2000,

discounted (at 10%) dollar values in revenues to the State of Alaska for \$0.50, \$1.00 and \$1.50 MCF wellhead priced gas are \$400 million, \$800 million, and \$1.2 billion. Of course, increasing the gas flow to 3.5 BCFD in 1985 would enlarge the level of revenues received by the State. These benefits would be further increased if the economic value of the gas consumed directly in Alaska were found to be greater than the wellhead price.

These figures cannot be taken wholly as net benefits, but they do indicate the magnitude of additional income which could accrue to the State solely from selling its share of gas, which without either of the two transportation systems, would remain locked in place for an indefinite period of time. An inference could reasonably be drawn, therefore, that the State of Alaska might find direct participation in financing the pipeline to be economically beneficial. (Alternatively, the State might indirectly assist in the financing by selling part of its royalty gas to a pipeline or utility company who would, in turn, then be willing to help finance a transportation system.) [emphasis supplied].

A major source of funds for investment by Alaska would be the large oil production royalty revenues to be received by the State beginning in 1978. Alaska would receive about \$650 million annually (assuming a production rate of 1.6 million barrels per day, a wellhead price of \$9 per barrel, and a 12 1/2% royalty). Thus, it seems clear that Alaska would have the capacity to finance a portion of the pipeline or to help finance cost overruns or guarantee debt to insure its repayment in the event of noncompletion or flow interruption.

Based on our search of the public record, this is the first official statement by any party, including the State of Alaska, with respect to the possibility of State financial participation in a North Slope natural gas pipeline project. In addition, we have found no evidence either from access to Treasury files provided under the Freedom of Information Act, or in conversations with individuals at Treasury involved in the

preparation of this report, that informal contacts by the State resulted in this conclusion by the Treasury Department. However, at this writing, not all relevant materials which we have requested have been furnished to us by Treasury. Specifically, all documents, notes and workpapers relating to the preparation of the December 1975 report, have been requested under the FOIA. This request is under consideration at Treasury, and has been promised to us by February 14, 1979. In the event that this material is not furnished in time for the preliminary report, it will be included in the final report as provided for in the contract of October 16, 1978.

Our conclusion that the Treasury findings contained in the December 15 report were not the result of either formal or informal statements by the State of Alaska, is supported by testimony of Governor Jay S. Hammond to the Federal Power Commission on February 9, 1976. In that testimony, Hammond discussed many aspects of the State position on a natural gas pipeline, and was questioned regarding State financial support. The interchange regarding State financing between Hammond and Hargrove was as follows:

Q. Now, sir, the task force study that was submitted to you by your Attorney General, Mr. Gross, indicates that--or urges in page 23 of the study that the State should insure that adequate financial backing is obtained for any natural gas pipeline project. Has your administration made any effort to offer financial incentives to either of the natural gas pipeline proposals?

A. No.

Following some byplay between the counsels, the Governor was asked to restate his response:

The Witness: Whether we had made any overtures to either company to secure financial-- again what was the word?

Presiding Judge: To provide financial assistance.

The Witness: To provide financial assistance. No, we have not.

Hammond was then queried as to whether such assistance was under consideration:

Presiding Judge: Have you studied it, Governor Hammond, such as municipal type bonds?

The Witness: I beg your pardon?

Presiding Judge: Such as municipal type bonds or State-backed bonds for the purposes of construction?

The Witness: These issues have been discussed. They have not been studied in depth but have been a matter of continuing speculation on the part of my revenue people.

Governor Hammond's position with respect to State financing as enunciated in these exchanges, seems quite clear. The text of the recommendations of the gas pipeline task force of April 2, 1975, is contained in Appendix 2.

As will appear more clearly later, the administrative law judge in this proceeding developed a distinct animosity toward some of the positions adopted by the State of Alaska. One of the areas in which Judge Litt expressed increasing displeasure over what he viewed as the State's uncooperative attitude in the proceedings, dealt with the question of estimating recoverable reserves of natural gas from the Prudhoe Bay fields and the associated production levels of natural gas. On February 9, 1976,

Mr. O. K. Gilbreth, Director of the State Oil and Gas Conservation Division, testified with respect to the work being done by the State to promote a unitization agreement for the Prudhoe Bay field, and on State levels of producibility of the reservoir. Gilbreth was questioned by Judge Litt on why a series of State computer runs introduced into evidence showing possible trade-offs between oil and gas production had different levels and various water flood programs, did not include a run showing such trade-offs and water flood requirements for a projected production volume of 3.5 BCFD. The exchange between Gilbreth and Litt follows:

A. No sir. First of all we don't have the history to tell that. But we do not have the plans, either, to know what the operator is going to do.

Presiding Judge: I am a little curious as to why you wouldn't have run that knowing that the El Paso proposal alone is for 2.4 BCF a day.

The Witness: Well, your Honor, we made some runs at 3 and 4. Our runs 19, 23 and 24.

Presiding Judge: They show a reduction in the optimum recovery per day of oil and I would think that you would have wanted to have shown what would have happened at 2.4 or better production of gas with a sufficient water injection so that you wouldn't have a reduction in the optimum production of oil and gas.

The Witness: We didn't happen to run that, your Honor. To us, the information just indicated that the higher the gas production rate and comparable oil production rates, the lower the recovery under the injection program that we'd assumed might be installed.

Presiding Judge: Mr. Gilbreth, the State of Alaska is in here supporting the El Paso proposal. It just seems to me you would have wanted to put in the study which shows that their proposal is not only possible

but would result in an optimum recovery of oil plus an increased recovery of gas at a water injection level which was specifically feasible. And that is probably the one run that isn't here, and I am curious as to why not.

The Witness: Well, your Honor, these runs were not made to prove or side with anyone. They were made to help the oil and gas conservation committee determine what would be the best way to operate the reservoir to get the maximum recoveries. And we did that without regard to what El Paso was proposing or what Gas Arctic was proposing, or anyone else, for that matter.

Presiding Judge: Do I understand your testimony though, is that under normal simulated studies if you increase the daily water injection and that were in fact feasible--in other words, if the availability of the water was there, because I assume that is the only limiting factor.

The Witness: Availability of the water and the availability of the injection wells themselves to receive the water.

Presiding Judge: Going to that last statement, would you drill additional injection wells if necessary, so that you could overcome that problem?

The Witness: Yes, sir.

Presiding Judge: Then you are saying that you in fact could increase the gas production and not lose anything from the optimum oil?

The Witness: Yes, sir.

Presiding Judge: Could there be a cost effectiveness problem with water injection?

The Witness: There could be. I don't know-- we haven't, you know, looked into the detail on that.

Presiding Judge: And that would center on what? The horsepower necessary to inject the water and how far you would have to pump the water?

The Witness: And how many wells would be necessary.

Presiding Judge: I see.

The Witness: It is a very expensive operation. One of the old rules of thumb is it will cost as much to put the water in as it costs to develop it for oil production.

Presiding Judge: There is no doubt in your mind, though, that is going to be a water drive field with an injection of water, is there?

(clarifying interchange between Judge and counsel)

The Witness: That's right.

Presiding Judge: So these costs in large measure are or is imminent. And that would not happen until sometime shortly before the operators could start production in the Prudhoe Bay field. So if it came down to a matter of us having to force something, it would be say within the last 30 days before they were ready to go on stream with the pipeline.

Reversing the thrust of that question, what you are saying essentially then is that the State has no present leverage in forcing the producers to come up with the unitization agreement on any time schedule other than the producers have to come up with a unitization agreement.

The Witness: Well, I wouldn't put it quite that way, your Honor. I do believe the State has quite a bit of leverage and I believe the operators admit it and know it, and the State is not wanting to really force an issue. But we will do everything we can to expedite the formation of a unit. We are also interested because it is holding us up in our plan.

Presiding Judge: Well are you aware of the discussions that have been going on throughout this proceeding concerning when would be an appropriate time for asking the producers to come forward with sales contracts?

The Witness: Your Honor, I have just seen one or two references. I have seen very little of the transcript, and have not discussed it with the attorney.

Presiding Judge: Those have been dependent, on large measure, from the producers' point of

view, on the existence and approval of the unitization and field operation agreement, Mr. Gilbreth. If I am reading your testimony correctly, at this point in fact, that time schedule has been put back anywhere from two months at the optimum to probably four to five months as a more realistic figure. Now, is there any way that you know of in which the unitization agreements and operations agreements could be speeded up given the fact that the producers will not in all likelihood file before sometime in July?

The Witness: Your Honor, I talked to the same two officials of the companies about this and advised them that at this particular stage we are in a state where we are perhaps more interested in the plan of operations than they were in the unit agreement. I have every reason to believe that the operators will approach the oil and gas conservation committee before July 1 with a plan of operations, but I am just led to believe this through our discussions. The letter, of course, says that they would do it sometime in July.

As will be seen subsequently, the inability of the State of Alaska and the producers to get together on a unitization and operating plan agreement within an acceptable time frame will become a matter of great concern to Litt. It is at least arguable that these and related problems caused Litt to view the State as increasingly intransigent, and so overwhelmingly committed to the El Paso project, that its judgment with respect to other policy areas, including reservoir management questions, was being colored.

Continuing with the Alaska witnesses, Commissioner of Natural Resources Guy Martin testified on February 12, 1976. During Martin's testimony, Litt raised another question which would prove to be a continuing source of irritation with respect to Alaska's policies. This was the question of in-state use of royalty gas, and associated State policies for determining what

level of in-state use was desired. As with other State positions, Litt's disagreement and displeasure will become more sharply focused as the hearing progresses, especially as it becomes apparent that the project will have increased difficulty finding private financing when faced with a high level of uncertainty over whether or not the State royalty gas might be withdrawn, and in what amounts. Martin's testimony and Litt's questions were as follows:

- A. . . . We have established a regulation. And basically the regulation works like this: that we are required to determine that amount of royalty oil or gas which is excess at the present and projected requirements. And we have attempted to deal with the terms present and projected in terms of, first of all, we will use-- we will make a determination for each sale that is made. In other words, that will be a constantly changing item. We will know more about what we are using now and what we may use in the future at any given point in time, we will know more in a month than we now know. So at the time that a sale is first proposed to be moved forward through the process, we will make a determination which used the same amount of time in the future, let's say ten years or fifteen years, which many people agree is about the limit for making a projection. We used that same time figure for both supply and demand. In terms of demand, in terms of present and projected, the regulation demands that we make the present finding, which is not difficult, and that we project that using what I think we would call ordinary economic criteria, population, expected growth. And there are several criteria that can be used to do that. We will not hypothesize new unknown potential growth factors such as industrial growth or use for factors which can't be predicted on a standard scale. What the effect of that is is to mean that the only legal burden for the Commissioner or the Board to make a finding of a surplus over projected needs will be to look at an ordinary projection based on population and other accepted economic factors, and anything over that which we want to determine is or isn't surplus basically becomes a policy and political decision.

[emphasis supplied]. Do you follow me? In other words, I am indicating to you that we could have included in our projection hypothetical or other large scale uses and thus come up with a definition which virtually allows no surplus to be found. So under the definition that we are using it will be possible, at least as a legal, a regulatory matter to find a surplus in most cases.

Presiding Judge: It will also be possible to find no surplus whenever you decided not to find a surplus in most cases?

The Witness: Yes sir. But the chances of that would be even greater had we gone the other route and made the regulation itself include, you know, for hypothetical future industrial uses.

Presiding Judge: Well your regulation is Alice In Wonderland really. It lets you make any decision you want. Right?

The Witness: Over the foreseeable projections you can make, that is right.

Martin's testimony continued, touching briefly on the question of the State's priorities for in-state gas use in terms of boiler fuel applications. The questioning then turned to State options in the event the decision was made not to sell the gas in interstate commerce. (These discussions occurred prior to passage of the Alaska Natural Gas Transportation Act which protected Alaska's ability to withdraw its royalty gas from interstate commerce.) First Martin was questioned about the possibility of exchange agreements between Cook Inlet natural gas owners and the State's North Slope royalty share. Then the questioning turned to the possibility that the State would simply choose not to produce its royalty gas in the event its right to withdraw it from interstate commerce was in question. The exchange was as follows:

Q. Well, the exchange agreement I can understand. Now, the banking agreement, what do you contemplate there, some type of agreement with the producers in the field whereby the producers--as the gas is produced it would all be attributed to the producers' interest and not to the royalty interest the records would be preserved so that at some point in time as production continued the gas then would start to be attributed to the untaken royalty so that at that point, for example, perhaps half the gas would then be attributed to producer interest and half the gas to the royalty interest as you drew down on your bank?

A. I think that in general terms you are describing what we have although I think you are exaggerating, you know either--the ultimate outcome either in terms of the willingness of the producers to agree to something like that or the desire of the State to proceed to that extent.

Presiding Judge: Remove the exaggeration and tell us what you have been considering.

The Witness: We don't have a specific plan under consideration, your Honor. The fact of the matter is that an underlifting agreement of this type would be an extremely new and different venture. And we are investigating that possibility and as I think may have been mentioned before, we have taken that up in at least preliminary discussions with those who are involved in the Prudhoe Bay unitization and expect to be discussing it further with them. And the exact--the specifics of our proposal are not even formed yet until we know the ability to even have a chance to consummate such an agreement.

Presiding Judge: Commissioner Martin, are you aware of the producer positions so far in this case concerning venturing into sales contracts?

The Witness: Yes sir, I am generally aware of it. I am not certain that I am aware of the whole scope of their position.

Presiding Judge: I think I can summarize the position as that it is a little premature. On the other hand, the Commission has certainly been interested in opening up evidence for them to find it easier to enter into such contracts in the immediate future.

The same I think would pertain to the State. The State has a nice healthy share of the amount of gas involved here. I think we would be most interested in knowing how the State was going to dispose of this gas sometime prior to 1980, which is the possibility that the producers first held out. They now have indicated that they might be willing to tell us something after the unitization and production agreement was entered into. Does the State have a timetable?

The Witness: No sir, I think I can say that we don't have a fixed timetable as to when we might do it, but I can tell you this: that I think that we want to be cooperative to be able to give you the maximum amount of information prior to your making your decision. I think you understand we are proceeding along a track which is different and has some similar objectives in terms of the national interest and some different objects in terms of our own interest. And we are really very much at the same stage you are in trying to find the answers to some very difficult questions before we make the decisions. We incidentally, are attempting to stimulate acceleration of that unitization agreement to the maximum extent possible as I think Mr. Gilbreth indicated, and as Commissioner that is overall my responsibility.

On March 1, 1976, a further staff witness was introduced to testify on financial aspects of the competing projects. The witness was Professor Hiram C. Caroon, Black and Decker, Professor of Finance at Loyola College, Baltimore, Maryland. Caroon appeared at the request of the Commission staff to testify regarding his analysis of the financial problems associated with the development of a natural gas transportation system from Alaska to the U.S., and to discuss a report on this subject prepared by him for the Department of the Interior, Office of Mineral Policy Development. Caroon's testimony was interesting in that it was the first instance in the public record in which it was suggested that federal coercion of the State of Alaska was not only possible, but possibly desirable.

- Q. Now, your third (negative factor) for Alaska-Canada is exposure to taxation by local governments. I find no reference to that in the Alaska-LNG system. Isn't Alaska-LNG also exposed to taxation by local governments?
- A. I think the U.S. federal government would have power over the local governments, whereas it would not have power over the provinces of Canada. I think we could influence Alaska; we could not influence the provinces of Canada.
- Q. It was your opinion that the federal government could direct the State of Alaska as to what it should do about taxation?
- A. I think it-- you know, it could influence it. It doesn't tell them what to do, but the federal government, you know, can exercise a bit of power.
- Q. Over the State of Alaska?
- A. Over any of the states.
- Q. That was your view.
- A. Yes. Yes. And, you know, I hold that view. I think the federal government has quite a bit of power when it wants to use it.
- Q. You mean legal power?
- A. I wasn't thinking specifically that there was a law that could apply. Not that. I just think given its size and position, the federal government can influence people in the different states, people who make decisions.
- Q. Can you give me any illustrations of the federal government requiring or persuading a state government not to assess a tax which a state government felt was needed for its development of revenue?
- A. Oh, I think it can -- you know, I think it can bring pressure to bear when it is sufficiently important for it to do so. An example of that, no, I don't think of an example of it.

The theme of possible federal coercion to achieve national policy objectives with respect to the natural gas pipeline was continued on March 10, 1976. This exchange occurred between counsel and Mr. Anthony Jiorle, Financial Specialist for the Federal Power Commission:

Q. . . . You are not advocating . . . that construction work in progress be included in rate base for the projects that are proposed here?

A. My position is basically that the producers should participate and that the project under those circumstances could be financed on a traditional basis and a traditional tariff could be used. . .

Presiding Judge: Have you determined, Mr. Jiorle, whether the producers can be made to participate?

The Witness: No, your Honor. That would be difficult to determine. I think it would be-- obviously after the producers appear, we will have a much clearer picture.

Presiding Judge: Well, would you support a condition and a certificate requiring that a certain portion of the equity be put up by those selling the gas?

The Witness: That is an interesting idea, and at this time I am not willing to make a statement that I would support that. But--

Presiding Judge: Have you investigated it?

The Witness: It is something that I think should be considered but along with its attractiveness-- along with and relative to the alternatives of let's say some form of government legislation to backstop the project or a tariff that would let let's say potentially shift some of the risk to the consumer. In either event you would be shifting certain risks and responsibilities etc. so I guess that should be considered -- though shifts should be considered with the possibility of some method of let's say forcing or compelling the producers to participate.

On March 16, 1976, John Neihuss, Deputy Assistant Secretary for Energy Policy, Department of the Treasury, testified on Treasury views with respect to financial issues. In general, Neihuss' testimony showed that the Treasury position, as expressed in the report to the Department of Interior in December 1975, had not changed. With respect to the question of which parties would participate in financing any of the pipeline projects proposed, Neihuss said:

The Witness: . . . When I refer to the potential project beneficiaries, I would intend to include the producers of the gas, the shippers of the gas, the other transmission companies that might, you know, have the benefit of the gas flowing through their pipeline, local distribution companies, and consumers.

Throughout his early testimony, Niehuss continually referred to "producers of gas" as major beneficiaries of pipeline construction, and thus as logical investors in any pipeline project. He did not, however, at this time, specifically mention the State of Alaska as a possible investor in the project, although the State's position as royalty owner placed it virtually within the category of a natural gas producer. Neihuss continued with his discussion of Treasury policy on the gas pipeline financing question:

The Witness: Well, we think that on the basis of the analysis that we have done so far that it is clearly possible for this project to be financed in the private markets through a combination of participation by the project beneficiaries which I mentioned earlier and appropriate regulatory action. It is our feeling that it is too early to tell whether a private financing will be arranged.

- Q. Now, let's go to another subject. It is Treasury's view that if the perceived beneficiaries of either project will coalesce their interests, that either project can be financed in the private capital markets.
- A. That is certainly our view. It might also, in addition to a coalescing of the interest of the beneficiaries, take some innovative regulatory action on the part of the Commission. (emphasis supplied).
- Q. I understand. We will get to that in a few moments. Is it Treasury's opinion that financing cannot be accomplished in the private markets without the support of the North Slope producers? By support I mean more than moral support. I mean support by contribution to equity.
- A. Well, I think, Mr. Connolly, that there may be a trade-off in the type of regulatory devices which are approved for the project and the participation of some of the project beneficiaries. I think that it would be theoretically possible to finance the project without the North Slope producers if you had appropriate regulatory devices which provided clearly for a full tracking of the costs under an all events full cost of service tariff though to the ultimate consumer.

Neihuss was then questioned by Connolly, counsel for El Paso, as to whether all of the possible beneficiaries (including the State of Alaska) considered by Treasury must necessarily participate in the financing of the project if it were to be successful. Connolly's question, which follows, lends some credence to the supposition that at this point El Paso was not seeking State or producer financial support (at least publically), but rather was focusing on the necessity for their "all events tariff" which had been the centerpiece of their financing proposals.

Q. (by Connolly) Well, given maximum tariff protection that one can conceive of, you would opine, would you not, that neither the producers nor the State of Alaska need to be participants in the project in order that this be financeable in the private capital markets?

A. Well, I think assuming the lenders were satisfied with the all events full cost of service tariff, you would certainly satisfy the risk of noninterruption after the project was completed. The more difficult question I think in the project is whether that would be sufficient to satisfy the noncompletion risks of the project.

Further along in Neihuss' testimony the question of federal coercion arose once again:

Q. Now, has Treasury done any research or study designed to inform itself as to whether it has any powers to coax, force, cajole, or otherwise induce the producers to become members of a sponsoring syndicate for either of these projects?

A. The answer is we have not investigated that from a legal standpoint.

On April 9, 1976, Atlantic Richfield testified on the impact of the Federal Power Commission orders 539 and 539-A (these orders deal with the Commission's attempt to establish its authority to order specific levels of production under jurisdictional contracts, even if such production levels are in the opinion of the producer economically or otherwise detrimental to their interest. The Commission's action has been challenged by a number of oil companies and is currently pending before the United States Supreme Court in FERC v. Shell. A more complete discussion of the issues surrounding these orders

is contained in Section III of this report). The Atlantic Richfield witness stated:

The Witness: Your question, as I understand it, is if the Commission does absolutely nothing to change 539 and either puts that as a condition directly into each contract or certificate or else says that we will consider that those conditions are in the contract--in the certificate -- whether we say so or not and our present position is that we will not execute and file a gas contract in Prudhoe Bay under those conditions. Now, it's within the Commission's power. It took them a quick stroke of a pen to write 539. A quick stroke of a pen could eliminate 539. We feel that it is an absolutely unjust, unfair, unproductive piece of action.

In further testimony by Atlantic Richfield on April 9, the administrative law judge explored what possible incentives or benefits might be necessary to make an investment by Atlantic Richfield (and by implication other producers) in the natural gas pipeline. Again, his frustration over the lack of firm responses, and what he views as an increasingly uncooperative attitude by some of the participants in the proceedings, is apparent.

Presiding Judge: You have an additional incentive in finding it attractive in that you are going to market a substantial amount of what you already own and, I assume, want to move. Is it placing a great burden on you to ask you to help us out a little bit, give us some hint as to what you would find to be an attractive package which would warrant not necessarily a final commitment at this stage or an obligation of funds, but some indication of how you would react to putting up either equity or debt?

The Witness: I don't think we can say at this stage exactly what would be required. We have no idea even what amount you are talking about. \$8 million, \$8 billion?

On April 12, 1976, the State of Alaska's counsel Robert Loeffler asked to make a statement to the hearing. Loeffler said:

Mr. Loeffler: . . . The Statement concerns the press publicity that has been associated with supposedly a proposal by Northwest to file an application for a third route. The proposal in question was made to the State of Alaska last week in conjunction with an offer to buy the State's royalty gas. It is a proposal that was generated by Northwest. It is nothing the State instigated or solicited or supports or doesn't support. It is just something that Northwest came up with as part of its offer to buy the gas as sort of a sweetener of the offer. The offer to buy the gas and other offers to buy the gas are under consideration. The State doesn't have an opinion on it. And nothing that has appeared in the press should be interpreted to mean that the State does have a position favoring or disfavoring Northwest's offer.

Loeffler's statement was an attempt to avoid any misunderstanding over the State's position with respect to the impending announcement by Northwest/Alcan that they would be entering the proceedings as a competing party -- and to temper Litt's increasingly critical attitude.

On March 16, 1976, Judge Litt requested a written statement from parties of the proceeding to the concept that a condition be attached either to the certificates authorizing a transportation system for Alaska North Slope gas or to the certificates authorizing the field's sales of such gas, which would require participation in the necessary financing of the authorized transportation system by those persons proposing to sell gas to be transported in the system. The producer response to this request was extremely negative. As a result of Litt's clearly expressed interest in

finding ways to coerce the producers into financial participation, the companies began making direct responses on the question of their participating in the financing of the project.

On April 12, 1976, Edward Harry, Jr., Vice-President of Finance for the Standard Oil Company of Ohio, testified that Sohio would be unable to consider any direct investment in a natural gas pipeline because of the poor condition of the company's finances.

On April 13, 1976, W. Ray Booth, Assistant General Manager of Exxon's Natural Gas Department, testified on the basis for Exxon's unwillingness, or inability, to enter into contracts with either of the competing sponsoring groups, and with respect to Exxon's position on producer financial participation. In terms of sales contracts, Booth testified that Exxon believed it was too early in the proceedings to make rational decisions on sales contracts, and that in their judgment, such contracts were not a necessary prerequisite for issuance of conditional certificate by the Commission. He then turned to the question of producer financing of a natural gas pipeline project:

. . . I would now like to address the speculation that has been expressed on the record in this proceeding with respect to the necessity or desirability of producer financial participation in the project ultimately certificated. Exxon has no plans to participate in any manner in the financing of the transportation project to be certificated by the Commission. . . It is our position that as an independent producer of natural gas, Exxon's capital resources and credit are best utilized in the exploration, development, and production of its own natural gas sources rather than being expended on interstate gas pipeline facilities, a business in which Exxon is not presently engaged. We cannot foresee any change in conditions that would cause Exxon to invest in a certificated project.

After reading prepared testimony submitted by Commissioner of Commerce Tony Motley and Commissioner of Community and Regional Affairs Kevin Waring with respect to impact costs on the State of Alaska associated with the natural gas pipeline project, and potential State options to ameliorate these costs, Litt again expressed his displeasure with the State's position in an exchange with Robert Loeffler, counsel for Alaska:

Presiding Judge: . . . Mr. Loeffler, I guess I might as well state it on the record, I think that there will be significant impacts for the State of Alaska, whichever line is built, but the hat-in-hand attitude that Alaska is taking in part I find not received with great favor by me. It places a great burden on Alaska to show the necessity of burdening the pipelines with additional costs which eventually must redound as a price of natural gas to the south 48 customers.

Mr. Loeffler: Your Honor, I don't think you fairly characterize our position as hat-in-hand. So far, although we have done some questioning, we have not urged that the pipelines be required to sustain any particular financial burden for social costs. That is really a policy decision the State hasn't made yet. It has been hinted at, but it doesn't mean the State's position is that.

Presiding Judge: Well, I am happy to hear that. I am sorry if I tarred you with the wrong brush, but I took a rather jaundiced view of some of the statements that were made in the State's presentation as being a request for additional conditions and the possibility of putting additional conditions on the pipelines in order to pick up social impacts. Now, if that decision hasn't been made, certainly I didn't understand that from reading the comments made by the various State officials.

On May 7, 1976, Commissioner of Revenue Sterling Gallagher testified regarding projected State oil and gas revenues. However, Gallagher was not questioned, nor did he make statements regarding possible State financial participation in the project. Considering the expressed concern of the administrative law judge regarding the State policies on royalty gas sales, reservoir management policy, and possible financial participation, it is curious that none of these subjects arose during Gallagher's testimony.

In July of 1976, Northwest Energy filed the third application for a system of transport of North Slope natural gas to the Lower 48 markets. Because of the relatively late filing, Northwest witnesses on a variety of technical areas had to be brought forward and dovetailed into the proceedings which were, relative to the other two projects, at an advanced stage. On September 8, 1976, Mr. Mark Millard of Loeb, Rhoades, financial advisor to Northwest/Alcan testified as to the financibility of Northwest's proposal. Under cross-examination by counsel for El Paso, the following exchange occurred:

Mr. Connolly: . . . You give it as your opinion, I take it, that you do not believe the Alcan project can be financed in the private sector but will require some form of government support.

Mr. Millard: I believe that if this question were to be decided in the light of conditions such as they exist today, the answer would be yes. I believe that public support is needed.

Mr. Connolly: And, that the Alcan project cannot be financed without it?

Mr. Millard: I believe this applies to all projects, but I certainly--

Mr. Connolly: Whether you do or not, at least you will confine your answer to Alcan for the time being.

Mr. Millard: Yes.

Mr. Connolly: Let's see what that embraces when you say that--Do you mean all components of the Alcan project, or are you referring to merely the Alcan and foothills Yukon segments?

Mr. Millard: I think it applies to all components of the Alcan project with the exception of the Canadian equity.

Further evidence that El Paso did not contemplate the State of Alaska financially supporting or guaranteeing its portion of the project, at least as late as September 1975, was provided during Millard's cross-examination by El Paso counsel:

Mr. Connolly: Have you discussed this concept Mr. Millard, whereby the United States would be called upon--Let's talk about governmental entities. You are not really talking about any other entity, other than the government of the United States are you?

Mr. Millard: Governmental--with a small "g".

Mr. Connolly: No, I am talking about the United States Government.

Witness Millard: No.

Mr. Connolly: No State is going to step up and take this burden. So we are talking about the United States government.

Witness Millard: Right.

Shortly thereafter, Connolly questioned Millard regarding what appropriate federal support might involve. The questioning turned to the usefulness of S. 3521 (Senate version of the

Alaska Natural Gas Transportation Act of 1976) in terms of Millard's perceived need for federal support:

Mr. Connolly: The procedural bill (S. 3521) invites the President to the (sic) recommend to the Congress any financial supports he believes the project may require in order to be financed. Is this what you have in mind?

Witness Millard: The procedural bill provides for general procedure--how the matter of the appropriate transportation of Alaskan gas to the Lower 48 should be decided.

Mr. Connolly: I am trying to deal with what the bill says and what the legislative and legal status of matters now are. Number one, will you not agree that absent passage of 3521, or a counterpart of it, that the Alcan project cannot be financed, absent some form of legislation.

Witness Millard: You're asking that as a matter of fact, or as a matter of law?

Mr. Connolly: Fact.

Witness Millard: I don't believe any of these projects can be financed, as a matter of fact.

Mr. Connolly: That means you answered my question yes--right?

Witness Millard: In the sense in which I answered it.

(interchange between attorneys)

Mr. Connolly: And, so even if 3521 were to be passed, it is your opinion that the Alcan project would need yet further legislation in order that the project could be financed.

Witness Millard: I believe that all three of these projects would require governmental support, and I think that you are right--that this probably in all cases would require legislation.

Mr. Connolly: Your answer is yes?

Witness Millard: Yes.

With Millard's testimony, all three of the competing projects are placed on the record as being, in the judgment of their respective financial advisors, not financeable from the private sector without either governmental or consumer guarantees. To this point, no party to the proceeding save the Treasury Department witnesses had suggested that the State of Alaska should assist in the financing in the event that governmental or consumer guarantees were not available. Conversely, however, extensive attention was given to the potential role of the North Slope producers -- making the eventual inclusion of Alaska as a financial participant in the project a relatively short logical extension, given the State's role as owner of 12 1/2% of the gas reserves.

On September 24, 1976, during a procedural conference, Judge Litt once again expressed his dissatisfaction with actions by the State of Alaska.

Presiding Judge: Another matter which I raised when I informally polled the principal applicant lawyers to ask whether they commenced any work on the definitions of waste under the conservation authority of the State of Alaska, or any other state for that matter, to control production, and what limits there might be on it as far as interference of interstate commerce laws and constitutions are concerned. It doesn't appear from what the attorneys have indicated informally that there is a substantial amount of work that has been done on that question . . . We clearly are getting to a point where one must consider whether the actions of the State of Alaska in this matter are such that they will impede any certification of any pipeline at this time, and if so, what action the Commission would have to take in order to protect the consumers from having the decisions as to both pipeline price, and all other matters,

dictated by the State of Alaska, which I don't think is what the Federal Power Act, Natural Gas Act is all about.

Mr. Pierce: I assume you are including the actions of producers in the scope of that, your Honor? I think there is an inter-relationship.

Presiding Judge: There may be, but the producers at least on August 27 favored me with a group of letters that indicated that they had provided material, which it was suggested had been required by the State of Alaska over a long period of time, Mr. Pierce, and some five weeks later the attorney for the State of Alaska shows up and says "hey, I don't think we have got enough." Well that might be a colloquial statement. I would think Mr. Martin might have informed us the day after he saw the material of the fact that there was some hang-up. What we are faced with now is an invitation to the State of Alaska to come tell us, where it would appear that the State was just lying back. You may draw conclusions from that. I draw my own at this point until somebody tells me what all the facts are, but the conclusions I am starting to tentatively draw, Mr. Pierce, is that the State is as interested in delay as the producers are. The producers, at least, have told us why. The State of Alaska has not even indicated on the record what it gains from the delay, but one can muse as to what it might gain.

Litt's dissatisfaction with the progress of the proceedings, and especially with the conduct of the State as he perceived it, were summed up by a statement made on September 30, 1976, just prior to an all day appearance by Commissioner of Natural Resources Guy Martin.

Just to recount a little bit of history, the Commission set this proceeding for hearing last April, a year ago, despite the fact that there were no sales agreements for the natural gas coming from the North Slope. This is rather unusual, since for the most part certificate cases or applications for the transport and sale of natural gas requires as an essential ingredient that such sales agreements be in place prior to the Commission's attempting to determine where the public interest

lies in an application case. In those few cases where the Commission has gone forward, it has been with a known quantity of gas with several technicalities not in place, rather than what we have here, which is an unknown quantity of gas with an unknown deliverability schedule.

Through the ensuing fifteen or sixteen months there have been numerous conversations with producers as to when we could expect such sales agreements, all of which have resulted in a general letter stating that the producers for various reasons were not willing to specifically commit the volumes of gas, but with an additional understanding, we have somewhere between 2 BCF and 2 1/2 BCFD available for sale eventually. Prior to close of hearing, I had expected at least that that one aspect of what would be available for sale would be nailed down, and would no longer be an issue, at least as to minimum volumes. We now come almost to the end of the road and it appears that that is not nailed down. We are in a position of not being able to size a pipeline, and not knowing what the dates of deliverability will be.

I think the situation has gotten to the point of almost being intolerable. The Commission in its original order setting the case for hearing indicated that it was taking the unusual action because the public interest demanded that hearing proceedings should not await the sales agreements to be in place. I do not believe that the Commission intended--could have ever conceived of the hearing being closed and we would not know volumes to be delivered or the dates when they could be delivered.

I have asked the State of Alaska to be present to indicate when we could expect those minimum figures. I am very distressed to find over a period of months that we have been informed that the magic date was the date when the producers finally got off the dime and would give the State of Alaska the materials necessary for the State to make the decision. That magic day allegedly occurred back in the middle of August. Absent my contacting Mr. Loeffler, the attorney for the State, I don't think I would yet know from the State that the information was "inadequate" for it to make that decision. I have had suspicions, possibly unfounded, for

a long period of time that the State was just as interested as the producers in not reaching that decision at an early date. Nothing that I have seen recently caused me to believe that my original impressions are unfounded.

Mr. Loeffler, does State have a position that it can take as to what those deliveries would be and will be and on what dates those deliveries will commence, and at what levels deliveries will be made?

Loeffler replied that Commissioner Martin would address some of the Judge's concerns but also offered his judgment that because the proceedings were taking place so early in the history of the life of the field, that moving forward without all of the usual information might be necessary. Loeffler said in part:

Mr. Loeffler: Your Honor, I really believe that you have to do the best you can. And if you reach a determination that this pipeline is vital and needed, then you have to act on the basis of the information in the record. And that information will not definitely permit you to reach some conclusion about deliverability. What I was suggesting, though, is that even if the State today announced that it had approved a specific deliverability rate, that rate would be subject to a judgment based on the operating history of the reservoir. And at least in theory that history might call for substantial alteration of the deliverability rate sometime into the history of the project or the pipeline.

Judge Litt then brought up the question of the State's standard of conservation for hydrocarbon reservoirs, and specifically whether the State's definition of "waste" could be used in an arbitrary or capricious manner.

The Alaska statutory definition of waste (prior to the 1978 amendments to AS 31.05.170) was then entered into evidence, and

Judge Litt asked counsel for the participants for any comments they might have on his characterization of the state of the proceedings. Counsel for Arctic said:

. . . I would go with Mr. Connolly. I believe that there is sufficient evidence in the record to establish a finding with confidence that the Prudhoe Bay field is finally capable of delivering a minimum of 2 and possibly 2.5 million cubic feet per day for sale purposes and that this volume of gas would not produce any degree of waste pursuant to the definition of the statute read into the record. . . . and therefore, that under that definition and with the evidence on the record here, that the field is capable of operating at that level without wasting as defined by the statute, and a finding could be made that at least a minimum volume of 2 billion cubic feet per day is available.

Presiding Judge: And what would happen if the State should only permit 1.8 or 1.7 to be produced under its definition of waste? Shall we say because there would be field impairment because of improper water flooding would be the reason as described, whether truthful or untruthful.

Mr. Hargrove: Well, I question, your Honor under challenge, either the State of Alaska or the authority of any state pursuant to regulations concerning waste as a conservation or appropriation measure for the production of hydrocarbons to do so on an arbitrary basis . . .

Presiding Judge: How many years would it take to prove it is arbitrary?

Mr. Hargrove: You have that problem, but it would require judicial process in the State itself in the first instance to determine that some action fell within the definition of waste. As to volumes below 2 billion per day, obviously we are getting into a situation of degree. At 1.8, feasibility is probably less comfortable but still not necessarily endangered. You continue on downward to 1.5 from there, I think it is clear that you must reach a

point at which it is simply not feasible to build a pipeline and take that gas out of the field.

Commissioner Martin was then called to the stand. Martin's initial testimony dealt with the progress of the State's negotiations with the oil producers on the unit agreement and plan of operations, indicating that these submissions were still inadequate for the State to make determinations with respect to establishing a minimum gas production level. Martin was then questioned regarding the status of negotiations for the sale of State royalty natural gas, and he indicated that there were ongoing negotiations with Tenneco, El Paso, Southern Natural Gas, and United Gas. After outlining the administrative and legislative process under which royalty gas sale contracts are approved under Alaska statutes, Martin addressed the question of whether or not the State was interested in delay of the sales contracts (and, by implication, the pipeline project):

. . . Your Honor, if I could add one thing to that, I think there would be an interest on the part of the legislature, as well as on the part of the State administration in reaching an early decision on this matter because the premise of these sales is that they would provide additional support for the Trans-Alaska route favored by the State of Alaska, and if that position is shared by the legislature, they would want to have that consummated prior to-- as early as possible so as to gain that additional support in whatever proceedings are taking place at that time either here or in Congress.

Presiding Judge: I would just allude to the fact, Commissioner Martin, that the State has done precious little in the past to aid its favored pipeline applicant in making decisions. I don't see why one should think that they would act here any more expeditiously than they have on all the other matters that have been left hanging by the State. But I accept at face value your statement.

Litt then asked Martin about the prospects for "underlifting", a matter about which the Judge had expressed previous concern:

Presiding Judge: . . . On page 3 of a statement that you made on August 18 at a public meeting on the Prudhoe Bay unitization and field operation plans, you referred to what the State would like to see as general provisions for its sale. One of these refers to underlifting. As I have now determined the definition of underlifting, if that clause were included, it would definitely go to the sizing of the pipeline that would be built to bring Alaskan gas to the South 48. As a matter of fact, if the entire State royalty gas were subject to an underlifting provision, you would have to size a pipeline to carry roughly 25% more in the first five years than it would be permitted to carry out of the State which would be a short haul for the rest of the duration of the pipeline. Now, does the State have in mind existing underlift provisions?

The Witness: Yes sir, we are going to discuss underlifting as the unit agreement is formed. Our anticipation, frankly, is this: I see you understand from your analysis that it would not impair the initial offtake in the field because if any underlifting were agreed to, the production through the line would be filled in by others during the early period and the only--the problem would be encountered when the State exercises its rights under such an agreement to take off gas at a later time. Our contemplation--

Presiding Judge: The manner in which it exercises its rights. All of the gas that was subject to underlifting back in a short period of time, there would be a horrendous under-utilization of the long haul aspects of a pipeline sized to carry the entire amount.

Martin explained that the State's intent was not to pursue a policy of massive underlifting, but that in all probability offtake of smaller continuous amounts during the operation of

the line would occur. Again, he stressed that because of uncertainty over the long term demand for natural gas and industrial development in the State, projections of the amount of underlifting the State might require were necessarily difficult or impossible to make. Litt responded:

. . . Wouldn't you think that prudence on the part of the Federal Power Commission would require that we discount transportation of royalty gas and possibly not permit the sale and transportation of it in interstate commerce if (the contracts) contained underlifting agreements?

Martin replied:

I would think you would want to take into account the terms of the underlifting agreement before making a decision like that, your Honor, but my own feeling is that with the potential for other reserves in that area, that it would probably be imprudent on the part of the Commission to under-size the line by any dramatic amount in its initial determination.

The Judge then inquired as to the status of constitutional challenges to Alaska hire statutes. Loeffler replied that the constitutionality of the Alaska hire law had been sustained by a lower court in Alaska, but that the challenge was continuing. Litt also asked about the various road, bridge and right-of-way issues facing the project and over which the State exercised control.

Questioning then turned to a detailed discussion of the reasons why the State was unable to determine with reasonable accuracy the eventual production levels of Prudhoe Bay natural gas. During this process a representative of Exxon came forward to present the status of the producers' deliberations

in terms of the unit operating agreements. During this exchange Judge Litt initiated a line of questioning which showed his distrust of the State's motives with respect to its conservation policies: Specifically, that these policies might be based on the State's desire for economic development rather than upon technical reservoir operating characteristics. The line of questioning and discussion was as follows:

Presiding Judge: If that plant were built on the North Slope, that would be another billion dollar construction project in the State, wouldn't it?

Witness Martin: Yes.

Presiding Judge: And if the water injection plant gets built, that is another billion dollars. Now we are talking about a two billion dollar infusion of capital into the State if those two are met. And the State is in the position of the fox minding the chicken coop, isn't it?

. . . The question that comes to mind is when you start playing with these kinds of numbers you are playing with a very large capital expenditure in a State which traditionally has had a boom and bust and hasn't had that type of sustained expenditure being made. How close in contact are you, Commissioner Martin, with the other commissioners in the State that have an interest in seeing continued expansion in the State economy through expenditures of large sums of money for construction in the State? I think that is a question that might be legitimately asked since you are making decisions on so-called conservation and waste issues which seem to have a much broader impact than just conservation and waste.

The Witness: I know those other commissioners, your Honor. But I think that you are not accurate in describing the motives of the State in this regard. And I think that

you should definitely not adopt a working assumption that the State is seeking to simply maximize development, and that that is one of its motives. As a matter of fact, the Administration which I serve is famous in the State for opposing just such things. And while neither of the extremes is true, there is a substantial dispute over just what the proper level of development of the State of Alaska should be, but I think you will note from your reading of the papers that myself personally and the State is famed throughout the State for maximizing that development.

Presiding Judge: I wasn't describing any ill motives to any individual or any group of individuals, but normal processes remove from the decision-making process those that have motives that could be given to them other than solely the issues before them. Here the State is wearing many, many hats.

Martin was also questioned regarding the possible co-mingling of physical and economic considerations in the State's definition of waste. The following exchange between El Paso counsel Connolly and Martin occurred:

- Q. . . . In considering whether or not to utilize a fluid injection plan, you would have to consider in the course of considering whether a resource was being wasted, whether or not the oil which would be lost recovery would, if recovered, have an appropriate economic value. You have to measure that, the value of the recovery of that oil against the cost of the construction and operation--
- A. We may or may not have to do that. I mean I don't think that it is clear that we have to accept that formulation as part of the test. Look, we may--Mr. Hargrove himself limited his answer when he indicated that the price of oil is something that simply may be impossible to calculate at this time. Now, what I

am saying to you is that yes, what you are suggesting may well be a consideration. It may or may not be a determining consideration depending upon how much certainty you could bring to it, or, you know, what result it leads you to in balance with other factors. I indicated that by and large in Alaska and elsewhere, but particularly in Alaska, which I am familiar with, a more conventional test dealing with more strictly with the physical waste aspect, that is maximizing your ultimate recovery in both oil and gas has been employed. And it will certainly be the cornerstone in determination we make in this case.

Q. You maximize it to what end? So that you put it to an economic use?

A. No, maximize it to the end that you are capable of producing the maximum amounts of each.

Q. But for what purpose? Why do you care about waste at all unless you are dealing with it in terms of economics?

A. Oh, I think there is a good number of reasons. For instance, I think it may be legitimate to deal with it in terms of the period over which it is produced, and that may not resolve itself only to an economic consideration. It may resolve itself into a level of production that you can tolerate in the State in terms of growth. And that may or may not be a pure economic standard or, at least, it may not simply be a matter of maximizing.

Q. Again--

Presiding Judge: That was a very intriguing answer, Commissioner. You mean that if you decided you wanted a 20 year drawout for growth instead of a 10 year, you could reduce from 2 BCF/d to 1 BCF/d?

The Witness: That is not what I said.

Presiding Judge: That is where you get to with that last answer.

The Witness: What I said is you needn't look at it in terms of maximizing economics. I suppose that if you are going to use extremes to demonstrate things, I assume Mr. Connolly would be prepared to live by order that we could maximize the economic return by producing

all the oil and gas in three weeks and somehow get to that standard. Now I don't think that is a sensible answer either. . .

As a result of Martin's extensive testimony, it is clear that the State did not commit itself formally and on the record to any specific level of natural gas production from Prudhoe Bay. Indeed, despite substantial pressure from the administrative law judge to make even a "guesstimate" about an absolute figure (as opposed to the numerous scenarios prepared by the State Oil and Gas Conservation Division and which were submitted into evidence), the State refused to commit itself on this issue. Rather, it seems that evidence as to Prudhoe Bay natural gas producibility, such as it was, was drawn almost entirely from producer testimony on their estimated levels of natural gas production. In this regard Judge Litt had the following comment:

Now, in your last letter to me you (i.e., the producers) suggested that as far as picking a transportation system was concerned, we had all the information we really needed and we could rely on the producers' representations that a minimum of 2 billion cubic feet per day would flow. Unfortunately, all the questions I have been hearing today are raised by the answers given by Commissioner Martin mean that we have a lot of unanswered questions as to cost. Even if one should accept prior producer statements concerning the volume of gas and when it might flow at face value til you have some resolution it would appear to me if some of the elements that will have to be born by the gas movements as they are produced-- the natural gas volumes as they are produced, we may not be sure we know what they are going to cost.

A bit later on there was an exchange between Loeffler and Judge Litt regarding the limits the Federal Power Commission's authority to control the State decisions over production levels

as a consequence of their interpretation of "waste" and under the general authority of their conservation statutes.

Mr. Loeffler: . . . I think you necessarily must reflect on the limits of this Commission's authority under the Natural Gas Act. In some of the questions that were raised today approach those limits. It seems to me--if you continue the logic that the Federal Power Commission is seeking for example to control the flow out of the State, control the deliverability rate, which I don't think you could do if the State is acting on the basis of waste in the traditional sense.

Presiding Judge: Would the Commission, Mr. Loeffler, make a determination as to whether the State is acting to control waste in the traditional sense, and if it should find it were not, would it then have authority under the Natural Gas Act to act appropriately in the public interest to protect the general public interest?

Mr. Loeffler: I think that would have to be settled in the federal courts, your Honor.

Presiding Judge: Well, maybe not, if there is a statute that permits certain determinations to be made. I would think that the courts would be ousted.

Mr. Loeffler: Well, I don't think they would be ousted permanently. The statute does contain exemptions for production or gathering.

Presiding Judge: I don't know what the statute looks like yet.

Mr. Loeffler: Well, which statute are we talking about? I was talking about the Natural Gas Act, your Honor.

Presiding Judge: I am talking about the bill which may be passed and become a statute which would be exempt from most of the provisions of court review. The decision that would be rendered here ultimately by the Commission and the President of the United States.

Mr. Loeffler: That is right.

Presiding Judge: It may be a new ballgame, Mr. Loeffler.

Mr. Loeffler: It may be, and there also a exemption if you want to call it that in that statute for constitutional challenges, and if you are challenging the police power of the State of Alaska, to regulate production--

Presiding Judge: Oh, not at all. I am challenging the use of a police power to do something other. If that should arise.

Near the end of Martin's testimony, the question of State financial support for a natural gas pipeline was raised for the first time since Governor Hammond's testimony of February 9, 1976.

Q. I have one question for the State of Alaska I would like to ask, and that is I would like to know what the State's present position is as to providing equity for say the El Paso - Alaska project? The project it is supposed to be supporting.

Mr. Martin: Shall I respond, your Honor?

Presiding Judge: Oh, certainly.

Mr. Martin: The question of equity is one that we have taken up I would say--we had not taken up seriously until about six weeks ago and we have taken it up as a fairly serious matter of consideration at the present time and I think that we will probably form a position--a policy on the various equity alternatives sometime before the first of the year, and certainly within-- I think probably substantially before the first of the year. But it is a matter of substantial state interest at the present time.

Presiding Judge: That would be, what, using oil money or floating bonds in order to partially finance the El Paso options?

Mr. Martin: Those are the options, yes, sir. And the royalty gas also figures as a part of that. That consideration.

Presiding Judge: The value of the royalty gas itself, providing either dollars or equity interest, one way or another.

Mr. Anderson: I wish you would advise us of whatever decision you make on that.

Mr. Connolly: Everybody.

Mr. Loeffler: We would certainly do that.

This interchange lends further support to the idea that the concept of State financial participation did not in fact come from the State of Alaska. Rather the idea was put forward originally by the Treasury Department, and "floated" in the background throughout the hearings. Although it is not reflected on the record contained in this report, a reading of the entire hearing record indicates that throughout 1976, the El Paso project was being viewed with increasing disfavor by Commission staff and by Judge Litt. Simultaneously, as is reflected in the record contained in this report, the State of Alaska was receiving increasing amounts of criticism for what was perceived by the Judge as an uncooperative approach to the proceedings. Martin's testimony on the relatively recent origins of serious State consideration of the question of financial support for El Paso undoubtedly reflects a growing awareness on the part of those participating on behalf of the State, that their preferred alternative, the El Paso project, was becoming a distinct second choice in the proceedings. And, it appears that consideration of offering some form of financial support to El Paso was contemplated as a "sweetener" in an attempt to make the El Paso proposal a more attractive alternative for the Commission.

On October 21, 1976, Northwest Chairman and Chief Executive Officer John McMillian submitted additional prepared direct testimony with respect to the Alcan proposal. Included in that testimony was the following question and response regarding financing:

- Q. Will Alcan require any governmental assurances in financing its project?
- A. Alcan is advised by its financial advisors that certain assurances from the Government may be required. I believe since Alcan proposes a conventional line which will be constructed through existing quarters, that if required, Alcan can secure such assurances more easily than the other two projects. The risk of noncompletion is much greater for the Gas Arctic and El Paso than Alcan.

The Alcan project is essentially conventional in nature and substantially similar to other natural gas pipelines which have been built in the past without unusual problems. We do not believe that there are any major or unusual engineering problems which will make it impossible to complete the Alcan project. Furthermore, because the line is conventional in nature it will mean the funds required for the Alcan pipeline project can be provided by existing financial markets.

While McMillian's statement concedes the possibility that "governmental assurances" may be required, he also expresses confidence that the project could be successfully financed privately. This position, of course, is entirely consonant with that put forward by the Treasury Department; it is much less so, however, with the testimony of Alcan's financial advisors (chiefly the testimony of Mark Millard of Loeb, Rhoades) cited previously in this report. By expressing confidence

in the prospects of private financing, Alcan seems to be attempting to place some distance between its position on financing, and the positions adopted by El Paso and Arctic. Alcan's ability to do this, at least within the context of the FPC proceedings, was of course limited by the testimony of the project's own financial advisors.

On October 26, McMillian was questioned by counsel for El Paso on his project's financial aspects and on the possible need for federal assistance (the "bill" referred to below is the Alaska Natural Gas Transportation Act, which was near final passage):

Mr Connolly: . . . Now, have you looked and seen what would be required if the President recommends and as you apparently, Mr. McMillian, suggest on the basis of your financial advisor's report--you suggest that some form of federal financing will be required. You nod your head yes.

Witness McMillian: Yes.

Mr. Connolly: And you admit that that will require legislative debate.

Witness McMillian: I said there would be some discussion. What degree or what magnitude none of us can tell.

Mr. Connolly: That is right. And that will require new legislation, will it not? With the possible exception if El Paso is the designee, then all it needs is a Congressional approval of the additional spending under the Maritime Act.

Mr. Hargrove (counsel for Arctic): That is El Paso's theory.

Mr. Connolly: That is right.

Witness McMillian: I won't debate that with you.

Mr. Connolly: But if you are selected it will require new financing, will it not?

Witness McMillian: Yes.

Mr. Connolly: A new form of government legislation that doesn't presently exist?

Mr. Grenier (counsel for Alcan): I object to that. That is a question of law Mr. McMillian can't be expected to answer.

Mr. Connolly: Mr. McMillian is a businessman who is proposing a multi-billion dollar project which he says--and his financial advisors tell him--needs federal financing. Now is there any legislation that he can turn to to get that money now? He ought to know that.

Witness McMillian: Let me speak to this bill. These are our best dates, not what if all the bad happens, and the sky falls on our head. But we assume that Congress wants to expedite this and get this gas down here as soon as possible. And we don't foresee all the strawmen that you are throwing up and all these things happening. If the Congress wants to and can meet these dates, we think this is a reasonable schedule that can be met. You can give all the what-ifs, and all the bad things and of course if all those bad things happen and nothing--you know, it is going to take a long time, I will have to admit.

Mr. Connolly: I am not giving you all the bads. I am giving you what is reasonable, I think. What you have agreed is reasonable.

Witness McMillian: I haven't agreed on that but I have been listening to you. What I think is reasonable is we came up here assuming Congress is responsible and the President is responsible and they want to get this gas down here as soon as possible to help the country and the public and they are going to work towards that goal, and we think this is a reasonable schedule that can be met. Now, all the what ifs and all the strawmen and all the bad things and the sky can fall on all of our heads, of course it is going to go away in the future. But if everybody works

in a positive manner, and it has been done before, these schedules can be met, and this is what we are putting out.

At issue was the question of the time necessary for Congress to act in the event that the President's recommendation to Congress was for a project, that in his judgment, could not reasonably be privately financed. Based on the record to that point, it seemed likely that such a finding by the President might be necessary. Consequently, the issue was raised over the possible need for new Congressional legislation for assistance in such event, and the possibilities of delay during Congressional consideration.

Because of the continuing questions surrounding the finability of all three projects, John Neihuss of Treasury was asked for supplemental testimony. Essentially, the Treasury position was unchanged:

First, Treasury favors the private financing for this project. We believe that the parties benefiting directly from the project--the gas transmission and distribution companies sponsors-- the owners of Alaskan gas reserves and the consumers--should together bear the costs and risks of the project rather than the general taxpayer. Second, the potential project beneficiaries have a capacity to finance the system without federal financial assistance. The important question is not one of capacity to finance but whether or not the existing risk bearing capacity will be brought firmly enough behind the project to attract the necessary debt financing from private sources.

Neihuss again cited the State of Alaska as a major beneficiary of the project, and therefore a logical participant in any financing proposal. He also noted prospective oil revenues to the State, saying, "the State of Alaska's capacity

to participate in the financing will soon be augmented by oil production royalties which may approach \$650 million per year." During Neihuss' cross-examination, the issue of federal coercion to gain possible additional financial participation in the project was again brought up:

Witness Neihuss: . . . If the wellhead price of the gas was appropriate there would be an economic incentive for them to sell their gas. And by not selling it, they are incurring an economic loss--an opportunity loss. And therefore, there is an incentive for them to participate in the financing of the project so that they can sell their gas and receive the return.

Mr. Solomon: But if the alternative to the oil companies voluntarily agreeing to assume this overrun cost commitment is that the Commission and the regulatory--state regulatory commissions would impose this responsibility on consumers, why shouldn't the oil companies say impose it on consumers? Or do the same thing by not agreeing to voluntarily assume this obligation.

Witness Neihuss: While I think that--you know, that there is a certain tug of war here between the various parties in getting other groups to assume financial risks. I just assumed that if wellhead price is attractive enough, that there will be very substantial economic incentives for the producers to participate in financing the project.

Mr. Solomon: Are you suggesting that the wellhead price attractiveness might be tied to their willingness to participate in the equity or debt financing of the project?

Witness Neihuss: Well, I think this is a question that was asked earlier and--

Mr. Solomon: Not quite that way.

Witness Neihuss: Well, we indicated we hadn't really focused on it. But it is certainly a possibility.

At this point in the proceedings, passage of the Alaska Natural Gas Transportation Act was imminent. It became clear to all parties that the proceedings would no longer be proceeding through normal Federal Power Commission channels. Rather, under the provisions of the Act, the hearing process would be terminated, and formal recommendations made to the full Commission on the basis of the established record. The truncation of the record was justified in the interest of speeding the proceedings, based on the perceived national need for Alaskan gas supplies. The agreed upon date for submission of the initial decision by Administrative Law Judge Litt was February 1, 1977, and the hearings were closed in December 1976.

Litt's decision ran to over 600 pages, and not unexpectedly, at least based on the hearing record, recommended to the Commission that the Arctic Gas project be approved. The decision categorized Arctic as distinctly superior to the second ranked El Paso project. In Litt's judgment, the Alcan record was so deficient as to make selection of that project impossible, regardless of what its theoretical merits might be.

In view of the substantial testimony regarding the difficulty of achieving a private financing for any of the competing projects, Litt's recommendation to the Commission was hardly surprising. The initial decision stated:

. . . It immediately became apparent that the only traditional creditworthy parties involved in this proceeding whose added credit could permit conventional financing were the two direct financial beneficiaries of Alaska natural gas sales--the producers

and the State of Alaska. Despite the billions that each will reap from the sale of Prudhoe Bay hydrocarbons, neither has shown any particular interest in investing in a transportation system to market gas or otherwise assist in its financing. The producers have been downright hostile to the suggestion.

Litt then addressed the question of State financial support directly:

. . . Nor, according to Governor Jay S. Hammond, has the State seriously considered offering any of the applicants financial assistance . . . Realistically, in the time frame necessary to expeditiously finance these projects, the Commission is incapable of more than strongly suggesting to the producers that their financial assistance to these projects is both fair and proper and in their best interest. However, if the President and Congress deem it appropriate that the producers as chief beneficiaries of the sale of Alaskan hydrocarbons should participate in financing construction of the transportation system to market their product--a position pressed obliquely by the Department of Treasury representatives on the record and on brief--legislative methods may be pursued, as Treasury hinted, to secure such participation.

In a footnote to the statement set forth above, Judge Litt expressed his views on the possible role of federal coercion with respect to producer (and presumably State) participation in the project:

The corrolary of not being able to make a horse drink when led to water is that you can make him darn sorry he did not.

Litt then addressed the possibility that the State might be willing to extend financial assistance to the El Paso project under some circumstances (a possibility which as was noted previously had surfaced at the very end of the hearing process in Martin's testimony and was beginning to be publicly debated in the press and in Alaska.

While it might be unkind to suggest, there is a likelihood that the State might be willing to aid El Paso if it appeared that such an offer might tip the choice toward the State's first love. The State's excellent presentation through a range of perceptive and knowledgeable witnesses, does not permit ignoring that such an obvious suggestion may be made at a propitious time in the decision-making process.

With the issuance of Litt's decision, the main evidentiary record with respect to an Alaskan Natural Gas Transportation System was closed. Passage of the Alaskan Natural Gas Transportation Act in November of 1976 had removed the broad decision making authority from the Commission and placed it instead in the White House subject to Congressional disapproval. The remaining requirement for the Commission under the ANGTA was to make a recommendation to the President on May 1, 1977. Prior to making the recommendation, the Commission heard oral arguments in early April 1977 by counsel for the competing projects. During these presentations, Edward J. Grenier, Jr. representing Alcan again attempted to differentiate the Alcan Project from the competing proposals in terms of financibility:

But now, let me say right out, Alcan, unlike Arctic Gas believes--and Alcan's financial advisors have so advised Alcan-- that its project can be privately financed without any government guarantees or backstopping whatsoever. There are certain conditions that must be met for this to occur.

According to Grenier, some of these conditions were:

We have to have perfect tracking of the costs in the project, including the noncompletion costs for the debt service or investment up to that point. And, after the project goes into effect,

all the operating costs and the debt service. We have to have perfect tracking right down to the ultimate consumer. And that must be locked in for the life of the project, both at the federal and state level.

Alcan's advisors had testified on the necessary preconditions for private financing. On September 2, 1976, William A. Davidson of Loeb Rhoades specified six regulatory actions which would be prerequisites for a successful private financing:

- (1) Rolled in pricing;
- (2) A full cost of service tariff for the project company;
- (3) All regulatory approvals necessary to permit shippers to provide tracking for all costs incurred pursuant to such cost of service tariff;
- (4) Allow regulated natural gas companies to include their investments in a project transportation company in their rate basis at least until the project becomes operational;
- (5) Provide a full (sic) proof incentive to distribution companies and local regulatory authorities to insure timely recovery of all project costs from the ultimate consumer by, for example, pregranting shippers the right to abandon all service to distribution customers who failed to meet their payment obligations under the shippers tariff; and
- (6) Assure the required regulatory approvals remain in effect for the life of the project.

Although Alcan counsel avoided use of the term in his presentation to the Commission, these conditions come remarkably close to "an all events tariff" such as proposed by El Paso.

Like all the applicants appearing before the Commission, Alcan was simply trying to put the best face on their proposal. However, Grenier's characterization of Alcan's financing prospects

demonstrates the gradual movement by Alcan management away from the concept of government or consumer guarantees and toward adoption of a total private financing concept. While such movement was somewhat at odds with the testimony of their financial advisors during 1976, it was totally in agreement with the developing political realities surrounding selection of an Alaskan Gas Transportation system; viz., that both the Carter Administration and the Treasury Department were strongly opposed to the concept of either federal or consumer guarantees, and consequently, the project farthest removed from these concepts would have an important selling point once the decision-making process left the Federal Power Commission.

The contrast between Grenier's position and statements made by Alcan financial advisors did not go unnoticed by representatives of the competing projects. Paul Connolly, arguing for El Paso said:

It is interesting also to hear this morning Alcan say we believe we can finance in the private sector. That is not the testimony of their witnesses.

Despite the fact that the subject of possible financial support by the State of Alaska was not being publicly discussed, El Paso made no reference to it in their closing arguments to the Commission. In the oral argument presented by Robert Loeffler on behalf of the State of Alaska, however, the State made its strongest statement to date on financial participation:

Mr. Loeffler: Today I will focus on two issues within the general universe of the financial and tariff issues. These are the questions of State of Alaska participation in the financing of the El Paso Gas pipeline and the way in which the Commission should proceed to price Alaskan gas.

The initial decision acknowledged that there was no record evidence that other states had participated in financing this type of gas pipeline project. It stressed the potential financial attractiveness of investment in the Alaska Gas pipeline, but concluded that Alaska had not volunteered in the project. That is true as of the time of the hearing. The State had not ruled out, however, the possibility of financing.

Since the initial decision Alaska has given serious consideration to ways in which the financing of the El Paso Project might be assisted by state support. Alaska recently retained the investment banking firm Smith, Barney, Harris, Upham and Co. to assist it in the necessary analysis of the financial issues in state participation. That analysis is underway.

Alaska can state on this record that it is searching for a way to participate meaningfully in the financing of the El Paso Project, and the foremost measure it is considering is the guarantee by the state of the junior debt of the El Paso project. Alaska believes that such a guarantee would materially assist the financing of the El Paso Project in the private sector and would increase the attractiveness of the El Paso Project over the other two projects in terms of its financibility.

Alaska cannot say today how much of an investment it is able and willing to make in the El Paso Project or exactly what the effect of its guarantee would be. It

believes, however, the fact of state financial support is significant and adds to the overall attractiveness of the El Paso Project.

The state can see no reason why it should put its revenue or its credit behind the Arctic Gas Project.

Commissioner Watt: Behind the What?

Mr. Loeffler: Arctic Gas Project.

Commissioner Watt: What is your next sentence, then?

Mr. Loeffler: My next sentence is that I now want to turn to another subject.

Commissioner Watt: Then I have a question. You have commented on El Paso and you have commented on Arctic. There is an obvious absence. What is the states position in regard to financial assistance to the Alcan Proposal?

Mr. Loeffler: The position is that if the El Paso Project is ruled out - I don't think the ruling out means the May 1 recommendation - at that time, at the time it is ruled out, the state will then seriously consider whether to assist the financing of the Alcan Project.

Following the initial round of oral arguments presented to the Commission, participants had an opportunity to make an additional presentation to supplement their initial remarks. In that presentation Robert Loeffler again representing the State of Alaska made remarks with respect to the status of State determinations on the operating and unit agreements and on estimated minimum deliverability from the Prudhoe Bay field.

"Last week on the 29th of March the unit agreement and an operating plan were tendered to the state.

. . . The plan says the Producers looked to initial pipeline deliveries of 2.0 bcf per day. They said depending on the history of the field, deliveries of 2.5 bcf per day are possible. They say also that they plan no extraneous water injection. They want to see how the field performs before they commit themselves to spending enormous sums of money on water injection facilities.

At this point they depart from the state. The State believes that the rate 2.0 to 2.5 cannot be sustained over the life of the field without water injection - let's say around seven years. This is confirmed by the Van Poolen report, which is an exhibit in this proceeding. So at some point the state and the operators are going to have to come to terms on it . . .

Commissioner Holloman: As you see it, what is the relevance of what you have just told us to the outcome of this proceeding?

Mr. Loeffler: I don't know if I should speak for the evidence, but if I were standing in your shoes and had to look to the question of what the likely rate of deliverability would be, I would find there was a lot of evidence in this record that - now that Alcan has come on board - the evidence is pretty consistent as to the likely rate of deliverability for Prudhoe Bay, which is between 2 and 2.5. I think that is the figure we have been hearing all along.

It squares with, I guess, all of the applicant's proposals, and after that it's got to be subject to what the reservoirs do in the initial years of operation.

Commissioner Smith: Well, you indicate a great deal of satisfaction with the Van Poolen report which we do have.

Mr. Loeffler: That's right. We - I don't want to speak for the producers, but I know Arctic Gas has complemented the Van Poolen study, and it has been generally received with praise. I don't think there is anything in there that contradicts it, except there is the question of is the water injection necessary and at what point and that's where as I say the state and the producers part company.

On May 1, 1977, the Federal Power Commission recommended to the President that an overland natural gas transportation system through Canada should be adopted in preference to the El Paso approach. This was not a completely surprising result, given the strong endorsement of the Arctic Gas project made by Judge Litt. However, the the Commission split 2-2 between the Arctic and Alcan projects despite Litt's comment in the initial decision that ". . . no finding from this record supports even the possibility that a grant of authority to Alcan can be made."

With the conclusion of the Federal Power Commission proceedings, consideration at the executive branch level went quickly. Comments on the FPC recommendations by federal agencies were required by July 1, 1977. From the standpoint of financing the proposed projects, the Department of the Treasury as lead agency (with the participation of the Departments of Commerce and Transportation, the Office of Management and Budget, the Federal Energy

Administration, and the Energy Research and Development Administration) submitted a report to the President entitled Financing an Alaskan Natural Gas Transportation System. The essential conclusion of the Treasury study was:

. . . There is good reason to anticipate that an economically viable system to transport natural gas from Alaska to Lower 48 states can be privately financed -- that is, without federal financing assistance. A private financing, however, will be difficult if not impossible to arrange without prior resolution of a number of issues.

The issues designated by the Treasury Department were as follows:

- (1) The mechanism by which the wellhead price is determined;
- (2) Method by which gas can be priced to the ultimate consumer;
- (3) The authorization of a sufficient flow of gas by the State of Alaska;
- (4) Negotiations of sales contracts between gas producers and gas transmission companies;
- (5) The determination of the rate of return the government will allow in investment in any transportation system;
- (6) Formation of a final coalition of equity investors in the project;
- (7) Determination of the extent to which benefiting parties (including the producers of the gas, the State of Alaska, and gas consumers) will provide financing support to the project.

Significantly, the list of preconditions is at odds with the testimony of the great majority of the financial witnesses heard during the FPC proceedings. For example, Issue 7 noted

by the Treasury Department states "determination of the extent to which benefiting parties (including the producers of the gas, the State of Alaska, and gas consumers) will provide financing support to the project." The weight of the financial testimony however, indicated that mere "determination" of the extent of such support was far from sufficient; in fact, the financial testimony pointed out that such participation and support, especially by gas consumers, would be an absolutely essential component if private financing were to be achieved. As will be discussed below, the Treasury records on preparation of this report are extremely sketchy. It seems clear, however, that the report reflects a policy decision that private financing is an important, and perhaps absolutely vital, component in the system to be selected. With that policy objective firmly in place, it was necessary for the Treasury to select carefully from the available evidentiary record, or if necessary ignore that record, in order to reach conclusions in keeping with such a policy determination. It is possible that characterization of the Treasury position on private financing as "policy" is too strong; however, review of Treasury statements on this issue going back to late 1975 clearly indicate that if private financing was not a policy, there was at least a unusually strong bias in this direction within the Treasury Department. We have found no evidence on the basis of the public record, or on the basis of our interviews with relevant officials (discussed more fully in Section I of this Report) that federal assistance was ever a serious policy option at Treasury.

The Treasury report dealt with the question of Alaska's financial participation as they had at the FPC and in the Interior Department report of December 1975. The report stated:

The State of Alaska would be one of the most direct financial beneficiaries of an Alaskan Natural Gas Transportation System. Treasury identified the state as a credit-worthy party with financial capacity to assist the Alaskan Gas Transportation System in financing in testimony before the Federal Power Commission.

The report goes on to discuss the State's financial resources, which in light of the recent State experience in terms of Prudhoe Bay revenues, seem ludicrously high:

In November 1976, Alaska amended its Constitution to divert at least 25% of its royalties to an investment fund, titled the Permanent Fund. Governor Hammond has introduced legislation which would channel 100% of the royalties into the permanent fund. The exact size of the fund will be determined by next year's legislature; it is very likely that the fund will total more than \$4 billion by 1985. The fund could be leveraged and would provide an important source of financing for a gas transportation project.

The report also concluded that other State Prudhoe Bay-related revenues would be equally large, estimating that in the period 1977-1983 Alaska would accumulate \$2.8 billion in the Permanent Fund, collect \$1.8 billion in severance taxes, \$500 million in ad valorem taxes, and \$1.5 billion in state corporate income taxes. The total estimated for the period was \$6.6 billion in constant 1976 dollars. The source of the

Treasury estimates was the Mortada Report prepared for the Federal Energy Administration in November 1976.

The Treasury report concluded its section on state financial participation with the following statement:

The State of Alaska perceives the selection of the El Paso project to be in its best long term interest, and has "offered"^{1/} to guarantee at least 10% (\$460 million) of the El Paso project's financing. (The guarantee is accomplished by setting up a "guarantee fund" in the Alaska Permanent Fund equivalent to 20% of the El Paso project debt being guaranteed. In addition, the income stream from the permanent fund would be dedicated to guaranteeing the remaining 8%.)

The State of Alaska has indicated that it would consider providing financial assistance to the Alcan project if El Paso were not selected, but the State is actively opposed to the Arctic project.

After examination of Treasury documents made available to us under a Freedom of Information Act request, it is clear that there was significant contact between State officials and the Treasury Department during the period January 1 to August 1, 1977. Unfortunately, based on the documents made available to us, what occurred during these sessions is not clear. To date, the Treasury has not yet completed its review of "sensitive" documents obtained in these files, and as a result we have only had access to the most non-controversial items. As was noted

^{1/} Based on expressions of intent by the State before the Federal Power Commission and discussions with the Commissioner of Revenue of the State of Alaska.

elsewhere in this report, we expect this review by Treasury to be completed by mid-February. Under the Freedom of Information Act, the Treasury Department must provide us with a complete list of documents contained in those files, and specify those documents which have been withheld under their interpretation of the Act. Our intention at this time, subject to direction by the Committee, is to appeal any negative decisions by the Treasury Department. At this time, the Treasury has not provided us with a complete list of documents contained in their files on this matter, but based on the hearing record at the Federal Power Commission, and cross references in those files which we have seen, we know that the following items exist but have not yet been provided to us:

1. Memoranda describing a series of meetings which were held between Treasury officials and all pipeline applicants during the period 1976-1977. We do know that financing issues were discussed at these meetings, and that memoranda exist describing the proceedings. They are, however, still under review.

2. Notes and memoranda relating to meetings held between State officials and Treasury officials. We do know that former Lt. Governor Lowell Thomas, Jr. met with Deputy Assistant Secretary Niehuss on February 16, 1977, to "discuss some of the State of Alaska's thinking concerning the financing of the project." According to Treasury, no record of their discussion was kept; however, once the document lists from Treasury are received, identifying other memoranda and related papers, it may be possible to reconstruct what transpired via these other meetings. In addition, Treasury officials indicated that "numerous" meetings

were held with Commissioner of Revenue Sterling Gallagher. We have also requested access to any materials relating to these meetings.

The most conclusive offer appearing anywhere in the public record available to us, regarding the State's willingness to participate in the financing of an Alaskan natural gas transportation system occurs in a letter of July 19, 1977 written by Commissioner of Revenue Sterling Gallagher. The text of that letter is set forth below:

S T A T E O F A L A S K A

DEPARTMENT OF REVENUE
POUCHE SA
JUNEAU, ALASKA 99811

July 19, 1977

Roger C. Altman
Assistant Secretary
Capital Markets & Debt Management
15th Street & Pennsylvania Avenue
Washington, D.C. 20220

Dear Mr. Altman:

On Monday, July 18th, 1977, I met with you to discuss Alaska's potential participation in financing of the Trans-Alaska Gas Pipeline. At that time I indicated I would be able to advise you of the State's position on this subject by Wednesday. I have reviewed the matter and believe the State would be willing to guarantee between 750 and 900 million dollars worth of debt for facilities located in Alaska.

This guarantee will be supported by the Permanent Fund established by constitutional amendment which required that at least 25 percent of all oil and gas royalties must be deposited into the fund. The legislature may require by statute a higher percentage contribution. My proposal will require that the legislature establish a 50 percent contribution level and that 70 percent of the guarantee capacity of the fund be pledged to this project. Since the State's guarantee is supported by a fund of cash and/or securities, it should enhance the quality and reduce the cost of the underlying debt.

Our proposal assumes that there will be adequate equity participation; we would also require that the debt guaranteed by Alaska receive at least as favorable treatment under tariff or other security arrangements as would the equity. We also assume satisfactory resolution of the question of pricing of North Slope gas.

We believe Alaska's permanent fund resources can be most effectively used to support the debt financing during the critical construction phase, after which project

revenues would provide the support. We do not believe it appropriate for Alaska as a state government to become involved as an equity owner in a private pipeline project, especially where Alaska's governmental responsibilities of maintaining and regulating the pipeline might result in a conflict were Alaska an equity participant.

It should be noted that this proposal is based upon my best judgment, but will require legislative approval before it is implemented. Furthermore, the association of this proposal with any project other than the all-Alaska route is totally uncertain. In this regard, I note that the legislative resolution authorizing the Department of Revenue to study State participation in financing is limited to the all-Alaska route.

Sincerely,

J. Sterling Gallagher
Commissioner of Revenue

JSG/kc

At this point, the public record is essentially complete with the exception, of course, of the President's Decision and Report to Congress of September 22, 1977. With respect to financing, the President's decision followed the Treasury recommendations virtually verbatim. The State of Alaska was identified as a "direct beneficiary" of the project and thus was included as a potential, and expected, source of financing. The decision reasoning on this point was as follows:

Tradition and equity suggest that the parties standing to benefit directly from a transportation system participate in the financing and share the burden of its risks.

Specifically referring to the State of Alaska, the Decision cited an estimated \$7.5 billion which the State would realize from the sale of Prudhoe Bay natural gas in royalties and severance taxes. Also cited were presumed economic benefits accruing to the State due to the level of investment inherent in the project, and the opportunity to connect the State's royalty natural gas supplies in Prudhoe Bay to central and south central regions of the state by installation of additional pipeline facilities connecting with the Alcan System. The Decision's comment on Alaska participation concluded by saying:

The State of Alaska has indicated a willingness and ability to guarantee up to \$900 million of the El Paso project, with the final amount depending upon the percentage of royalty revenues that the State Legislature votes to have placed in a permanent capital account that can be used for such purposes. Although no comparable commitment has been received from the State for the Alcan project, such participation by the State in the financing would be in the interest of the State, the Nation, and the expeditious construction of the project.

The Decision's conclusion that private financing was not only possible, given some preconditions, but was indeed probable, completed the evolutionary process by which private financing moved from a policy assumption to a policy requirement. It also completed the interment of the financial testimony submitted to the Federal Power Commission through the end of 1976. The decision took passing note of this in the following statement:

The conclusion reached here regarding private financing without consumer non-completion guarantees differ substantially from the position taken by most parties in the Federal Power Commission proceeding and by representatives of El Paso in their most recent statements. These statements were made prior to the significant steps that have been taken in recent weeks to reduce uncertainty and create proper planning, control and incentives. Although the fundamental and economic potential of the project has not changed, the likelihood of achieving that potential is greater.

When reviewed in its entirety, the evolution of Treasury and Administration policy on this issue is quite interesting. Starting with testimony at the FPC regarding the absolute requirement for certain federal regulatory and/or legislative actions Treasury moved to a position (July 1977 report) that private financing was also possible if "determinations" were made with respect to these questions. By September, the need for "determinations" had changed so that a mere declaration of federal intent to make such determinations was sufficient to not only make private financing possible, but in fact probable. It was, to say the least, an interesting if tortured process of policy development.

The decision-making process was essentially over. Remaining was only House and Senate consideration of the President's recommendation; approval was basically a foregone conclusion. However, in Congressional hearings on the President's Decision, the clearest statements to date regarding State policy with respect to financing and management of the Prudhoe Bay reservoir were made. In his testimony before the Senate Energy and Natural Resources Committee, Senator Ted Stevens said:

Mr. Chairman, there is serious question that this project can be built with the financing scheme presented in the Presidential report. The President has predicated his assessment for Alcan's financibility on the assumption that the State of Alaska and the producer companies of the North Slope will participate in equity ownership and debt guarantee of the pipeline. I told Dr. Schlesinger this yesterday and I think its bears repeating today--to my knowledge, the State of Alaska has no intention at this point to participate in any financing of the Alcan line nor have the producers indicated their willingness to participate. In fact, a week prior to the President's decision, the Governor of the State of Alaska wrote the President stating that the State had no intention of financially involving itself in the Alcan project. The Governor also said that even if he were to change his mind, it was unlikely the Legislature would approve such a plan.

Also testifying before the Senate was O. K. Gilbreth, Director of the State of Alaska's Division of Oil and Gas Conservation. Gilbreth's testimony clearly set forward the status of State conservation policy for the Prudhoe Bay field:

As we see it, the basic question is whether a pipeline decision should be deferred until more is learned about the performance of the Prudhoe Bay reservoir. The State of Alaska, based on what we know today--i.e., our own studies, Mr. Doscher's two draft reports and testimony here, material presented to it in its regulatory capacity, and its own professional judgment--believes there is no sound technical reason to delay, provided that the operators adopt and implement a source water injection program by the time gas sales start. If the operators do not implement a source water injection program, then gas sales will have to be limited or postponed in order to avoid jeopardizing ultimate oil recovery.

The Senate Report accompanying S.J. Res. 82 recommended approval of the President's Decision, but expressed serious misgivings regarding some aspects of the project:

The President's decision requires private financing.

The President contemplates participation by the State of Alaska and the North Slope producers, though the producers may not hold an equity position for anti-trust reasons.

Secretary of Energy Schlesinger and Assistant Secretary of the Treasury Altman both testified that the project can be privately financed, even without participation by the State of Alaska or the producers.

Alcan asserts that the project can be privately financed.

While the Committee has reservations about the ability of the Alcan project sponsors to secure the necessary private financing, we are recommending approval of the President's Decision based upon the unqualified assertions made by the Administration and Alcan officials.

The Committee cautions the Administration and the sponsors against taking a backdoor approach to federal financing. Financial gimmicks involving consumer risk-taking via the federal Treasury or via special tariffs will not be tolerated by the Congress.

The reports of the House Committees considering the President's decision were less pessimistic than the Senate report. House Report No. 95-739 prepared by the Interior Affairs Committee on October 25, 1977, made only passing reference to the President's recommendation that the State was a logical financial participant. The House Interior Report did focus some attention on the express

reluctance of the producers to participate in financing the Alcan project. However, the Committee chose to take an optimistic approach by indicating that both Arco and Sohio had indicated their potential willingness to assist in the financing of the conditioning plant, while Exxon had testified that:

". . . Now everything is subject to negotiations obviously."

House Report No. 95-739, Part 2, prepared by the Committee on Interstate Foreign Commerce, focused on Alcan's recission from their previous position that concluded an "all events, full cost of service" tariff would be required:

The Committee finds no evidence to suggest that the Alcan project cannot be financed with a minimum bill tariff which does not provide for a return on equity during periods of supply and eruption on the system. . . . In addition, the Committee wishes to reaffirm the President's requirements that the Alcan project be financed without any participation or guarantees by the Federal Government. The Committee views the matter of private financing as a critical feature of the President's decision and, accordingly, intends to stay well informed regarding the progress of the financing of the Alcan System.

The House and Senate resolutions approving the President's Decision selecting Alcan to transport Alaska natural gas to Lower 48 markets were approved on November 2, 1977.

Page 110

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REPORT TO THE JOINT INTERIM
PIPELINE COMMITTEE
THE ALASKA STATE LEGISLATURE

Section III: Federal Leverage Over the State of Alaska

Contract Requirement:

"This Section will examine the full spectrum of means the federal government might conceivably use to induce the State of Alaska to contribute its fiscal resources to the construction of the Alaska national gas transportation system. These means should include both direct and indirect federal actions, and should examine in at least a cursory way all those areas where the federal government exercises or could exercise leverage on the State. Detailed examination should be devoted to those areas where federal action in this context is most likely."

I. Summary and Outlook

Our analysis leads us to conclude that the most probable use of federal leverage over the State of Alaska to induce financial participation in the natural gas pipeline project would involve the proposed export of North Slope oil to Japan or elsewhere. If the Secretary of Energy is so inclined, he may hold the oil swap hostage until the State commits to financially support the gas line. Secretary Schlesinger has, in recent weeks, re-emphasized his strong support for the Alaska natural gas pipeline. The statutory requirements that must be met in order to export Alaskan oil place much discretion in the Department of Energy and current political realities dictate that no such oil exchange can occur without full DOE and Carter Administration support.

Opposition to the proposed Alaskan oil swap is by no means the only effective leverage weapon held by the federal government. Natural gas law, particularly as amended by the 1978 Natural Gas Policy Act, provides the federal government with many methods for coaxing Alaska into financial participation in the gas line. It is clear that the Federal Energy Regulatory Commission can now deny rolled-in pricing treatment to any new Alaska State severance or production taxes, can order State royalty gas to be shipped to the continental United States in emergency (and probably other less severe) conditions. Moreover, the 1978 legislation expands federal incursion into oil and gas regulatory responsibilities traditionally controlled by states, such as reservoir (especially gathering and production) management. This trend comports with recent FERC decisions, one of which recently has been overturned by the United States Court of Appeals and is now before the United States Supreme Court, which also seek to increase federal control over reservoir management. The 1978 Natural Gas Policy Act gives the federal government tremendous leverage over State decision-making, since oil and gas tax revenues are essential to the financial well-being of the State of Alaska, as they are to every producer state.

Exercise of administrative leverage over states is generally most effective when it directly impacts the individual State and equally directly pertains to the same subject matter (in Alaska's case, North Slope oil and gas). There is no reason to believe, however, that the federal government

would limit itself to direct leverage if it is committed to inducement of Alaskan participation in the gas line. In fact, the very nature of the federal supervisory and regulatory structure surrounding the proposed Alaska natural gas transportation system lends itself to indirect as well as direct leverage. The federal structure involves several agencies, international as well as national implications, a statutorily required federal inspector or board to coordinate federal actions regarding the pipeline and expedite construction. Furthermore, the project embraces an extraordinarily large pipeline service area that impacts a broad spectrum of congressmen and senators, each seeking to protect constituent interest by the use of his or her own parochial legislative jurisdictional strengths. There are a substantial number of existing federal regulatory or support programs--all of which are subject to congressional oversight and amendment--that could well be used to indirectly induce Alaskan financial participation. Among the more likely candidates for use as leverage over the states are: oil pricing entitlements treatment; LNG plant certification; denial of access over federal lands for natural gas spur lines; denial of industrial development permits due to clean air or clean water act violations; budget cutbacks with particular impact on Alaska, such as military spending or private financial aid programs (i.e. EDA, Farmer's Home Administration, National Marine Fisheries fishing vessel loans, etc.); adverse wilderness study determinations; denial of export licenses; and any of

a series of Department of Interior decisions regarding conveyance and use of lands selected by the State under the Alaska Statehood Act and/or public lands remaining under federal control.

No discussion of federal leverage possibilities can be complete without addressing the most important legislative matter vis-a-vis Alaskan interests before the United States Congress since at least the Alaska Native Claims Settlement Act, if not the Alaska Statehood Act itself. Alaska National Interest Land legislation is likely to be completed by the House of Representatives no later than May 1, and by the Senate sometime during the summer. Final conference approval of this legislation should occur no later than September and enactment would likely follow soon thereafter. Given this time frame, the potential for exchanging favorable (d) (2) determinations for pro-pipeline funding decisions by the State cannot be overlooked. The leverage held by Congress via the (d) (2) legislation is so extraordinary--specifically including appropriation of State selected priority lands, denial of access rights to much Alaskan land and over much federal land, denial of exploration and development rights, (particularly in Southeast), prohibition of continued Arctic Range oil exploration and development possibilities, etc.--as opposed to the State's legislative bargaining power, which is so fragile, that congressmen and senators supporting the Northwest Pipeline Project will clearly have an opportunity to muscle the State into financial support in return for casting critical votes to protect the State's interests in the (d) (2) legislation.

Finally, we must note that year-in and year-out Congress deals with a steady stream of legislation that substantially impacts the State of Alaska. A review of Congressional actions over the last several years reveals that Alaska-related legislation is disproportionately represented vis-a-vis legislation affecting other states. It is probably safe to contend that Alaska will continue to be more dependent on Congressional good-will than most other states. Unfortunately, this allows Congress to wield fairly constant leverage over the State, and one that can be used to help induce State financial participation or to thwart any future State efforts to curtail or terminate financial commitments once made. In upcoming years, Congressional decisions on RARE II wilderness recommendations and similar BLM Organic Act (Section 603) proposals stand out as opportunities for Congress to coerce Alaska into pipeline support.

II. Methodology

We have approached the federal leverage question by dividing the possible federal actions intended to induce Alaskan financial participation into three categories: administrative actions; congressional actions; and legal actions. Within each category, we have then subdivided our research, first focusing on the most direct and most probable pressure points and then on indirect but still effective coercive weapons. We have also factored timing considerations into our analysis, seeking out federal policy determinations and actions that can be made to coincide with the likely timing of the Alaska Legislature's decision to endorse or

oppose financial participation.

A. Administrative Leverage

Administrative agencies with existing statutory authority, a regulatory structure in place, and the discretion to make decisions (or to indefinitely delay essential decisions) pose the greatest threats to the State of Alaska. Such agencies are able to impose their leverage immediately, impose it directly on the subject or decisionmakers they wish to coerce, can do so with relative impunity from political or legal restraint, and can often do so without

Within the administrative leverage category, the most efficient and most probable method for inducing Alaska financial participation is to employ an energy regulatory program, under the auspices of the Federal Energy Regulatory Commission or the Department of Energy, that has some direct relationship with natural gas or the Prudhoe Bay oil and gas reservoir. Historically, the use of such direct coercion has been the most effective hammer, because it can be sustained as a proper use of administrative discretion, while surgically applying pressure to state energy officials and legislators who can most easily see the costs and benefits to be incurred by attempting to buck the federal demands. In the context of our report, the "direct" federal actions exercising leverage over the State will be those related to natural gas or Prudhoe Bay energy.

With regard to indirect administrative actions that could be utilized to effect State financial participation,

we have had to draw the line between reasonably foreseeable administrative actions and those which are so remote that they should not be considered a serious factor in State decision-making regarding financial participation. The principles we have adopted are these: the most likely indirect administrative actions will be those that are controlled by FERC or DOE, or that involve agencies that participate in the inter-agency natural gas pipeline decision and policy-making structure; where non-energy agencies are involved, the most likely leverage decisions will be ones that directly involve Alaska and not ones that would have an overall effect on all 50 states (for example, the Interior Department could make it clear to Alaska that it will look unfavorably on requests for access over federal lands in Alaska to build spur lines using royalty gas transported in the pipeline); we have also included decisions made by the Carter Administration on matters that are not even indirectly related to the gas pipeline, but are directly related to the State of Alaska, such as budget cuts, environmental programs, or commercial fishing development determinations.

When considering indirect administrative involvement in the Alaska natural gas pipeline, any analysis must pay deference to the unique regulatory environment in which this project has always resided. It is safe to say that no natural gas pipeline in the history of the United States has ever been subjected to the broad range of Presidential and administrative involvement that this pipeline has experienced and will continue to experience. By the very nature of the project,

it has international as well as national implications (thus integrally involving the Department of State) and its financial magnitude necessitates a high level of Treasury Department involvement. Moreover, the Alaska Natural Gas Transportation Act, P.L. 94-586, directs the President to appoint a federal inspector of construction or a federal oversight board. The inspector is directed to monitor compliance with applicable laws and any actions taken by federal agencies affecting the project. This not only imposes a statutory inter-agency review and participation structure, but the Act goes on to require the inspector to "insure a timely completion" and to maintain the quality of construction and accomplish cost control, as well as safety and environmental objectives. These requirements are found in Section 7(a)(3)(D) of the Act, along with the inspector's authority to compel by subpoena the submission of whatever information he deems necessary to carry out his responsibility under this Section. The inspector (or board) is also required to prepare quarterly reports to the President and to Congress with regard to the progress of the project. From a standpoint of potential federal leverage over the State of Alaska vis-a-vis the gasline project, the responsibility given the federal inspector creates a structural outreach to a substantial number of federal agencies and programs, most of which can be manipulated to directly or indirectly pressure Alaska into decisions comporting with expeditious completion of the project. Clearly, State financial participation would expedite the

project and a broad interpretation of the federal inspector's statutory responsibility could well justify acting to encourage Alaskan financial participation.

Alaska's unusual dependence on federal programs to maintain its economic equilibrium makes it particularly vulnerable to certain pressures that other states might be able to ignore. This susceptibility to federal program cutbacks has always been a weakness of the State and is not in any way indigenous to the Alaska natural gas pipeline. It does, however, increase the impact the federal government can have on Alaskan decision-making.

Our methodology has led us to exclude certain types of federal leverage that could conceivably be imposed on the State or its citizens. Because the federal government has so many direct, appropriate and effective levers, there is no need to victimize segments of the State that are not directly involved in the gas line. For instance, we have excluded consideration of leverage that could be imposed over educational or social service projects even though such leverage, if exerted, would be very effective.

B. Congressional Leverage

With regard to the United States Congress, we have examined Alaska-related legislation that it expected to be seriously considered by the 96th Congress. Of course, the Alaska Lands legislation is preeminent, but there will be consideration of RARE II as well as many Alaska-significant energy matters, and other related legislation. We have also

studied Alaska-related legislation that has been enacted in recent Congresses, much of which will be subject to Congressional oversight and possible amendment in the next couple of years.

We have also considered certain legislatively-created programs, such as clean air, which have been in place for several years but are subject to constant legislative review and, most importantly, could be used to impact Alaska's natural gas pipeline financing decision. We have attempted in this section, as in the administrative section, to focus on directly related legislative matters--such as the Natural Gas Policy Act--and secondarily the indirect potential levers.

C. Legal Leverage

For the most part, the use of litigation would be a fairly inefficient method for coercing the Alaska Legislature into financing the natural gas pipeline. Most litigation would have a long lead time and an uncertain conclusion. It is nowhere near as surgically precise as administrative action. We have generally discussed possible legal leverage decisions as part of the administrative leverage section.

There are some unusual circumstances in which legal leverage is quite effective. Most recently, the Solicitor's Opinion regarding ownership of the Beaufort Sea presented an example where legal leverage could have been imposed on Alaska in a direct and effective manner to spare a positive natural gas pipeline financing decision in exchange for a pro-Alaska Beaufort Sea ownership stance. There are, of course, also opportunities to seek injunctive relief that

would have short term effects. Where such actions are foreseeable, we have cited them in our discussion.

III. Administrative Leverage: Energy-Related (Direct)

A. Export of Alaska North Slope Crude Oil

The perfect model for the federal government's ability to coerce state action arises when a state badly needs a positive federal decision, the federal government has wide discretion to decide for or against the state (or not decide at all), and the federal government has a need for a particular action on the state's part but the federal government's need is far less severe than that of the state. If all of these factors come together and there is a relationship between the state's need and what the federal government wants from the state, then all the criteria for substantial federal leverage over that state have been met. This set of facts describes the proposed swap of North Slope Alaska crude oil with Japan or some other foreign government.

The State of Alaska has been receiving far less than expected revenues from North Slope oil production because extraordinary transportation costs have depressed the wellhead price. Export of this oil to Japan, or almost any foreign nation, with a concurrent replacement of it to the Gulf of Mexico from some other source, would dramatically increase the wellhead value and in turn boost the revenues received from State royalty oil as well as taxation of producer oil.

In order to export North Slope crude, several legal and political requirements must be met. First, Section 28(u) of

the Trans-Alaska Pipeline Authorization Act ("TAPS Act"), Public Law 93-153, must be satisfied. This provision, entitled "Limitations on Exports", subjects North Slope exports to the limitations and licensing agreements of the 1969 Export Administration Act, P.L. 91-184, which allows exports "to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand", and "to the extent necessary to exercise the necessary vigilance over exports from the standpoint of their significance to the national security of the United States".

In addition to invoking the authority of the President to prohibit, restrict or regulate exports of North Slope crude oil under the terms of the 1969 Export Administration Act, Section 28(u) establishes an additional prerequisite for such exports by stating that:

"in addition, before any crude oil subject to this Section may be exported under the limitations and licensing requirements and penalty and enforcement of the provisions of the Export Administration Act of 1969, the President must make and publish an express finding that such exports will not diminish the total quantity or quality of petroleum available to the United States and are in the national interest".

The TAPS Act goes on to require that the President shall submit reports to Congress containing said findings if he chooses to export North Slope crude and that:

"after the date of receipt of such report, Congress shall have a period of 60 calendar days, 30 days of which Congress must have been in session, to consider whether exports under the terms of this Section are in the national interest. If Congress, within the

time period, passes a concurrent resolution of disapproval stating disagreement with the President's finding concerning the national interest, further exports made pursuant to the aforementioned Presidential findings shall cease".

From the provisions of the TAPS Act alone, it is clear that Alaska will need the support of the Department of Energy and the President in order to generate the discretionary finding that exports of Alaskan crude will be in the national interest and not diminish the total quantity or quality of petroleum available to the United States. To date, Secretary Schlesinger is on record as being in favor of the oil swap, but the President has been noncommittal. In the past, President Carter has tacitly expressed concern that export of Alaskan crude would be difficult to explain to the American public and still have them believe that a legitimate energy crisis or shortage exists.

While the TAPS Act poses some barrier to export of Alaskan crude, it is a barrier that the Department of Energy can, in its discretion, factually overcome. It would be far more difficult to overcome the additional limitations on North Slope crude exports imposed by the 1977 amendments to the Export Administration Act, Public Law 95-52. That statute provides that North Slope crude may be exported only if:

"(A) the President makes and publishes an express finding that exports of such crude oil--

(i) will not diminish the total quantity or quality of petroleum available to the United States,

(ii) will have a positive effect on consumer oil prices by decreasing the average crude oil acquisition costs of refiners,

(iii) will be made only pursuant to contracts which may be terminated if the petroleum supplies of the United States are interrupted or seriously threatened,

(iv) are in the national interest, and

(v) are in accordance with the provisions of this Act;^{1/}

Arguably, the President could make all of these findings, but it would be difficult to do so and withstand critical assessment of those findings by the United States Congress. In particular, a clear showing that consumer oil prices will be positively impacted and that average crude oil acquisition costs of refiners will drop would be tough to demonstrate.

The McKinney Amendment has only a two-year life span and will expire on June 22, 1979. Clearly, it is in the State's interest to have this provision expire. If there is a serious effort to extend it, the State will need the support of the Carter Administration toward insuring that the extension does not become law.

Secretary of Energy Schles^finger has on several occasions in the last month evidenced strong support for construction of the Alaska natural gas pipeline. Among the most pronounced obstacles to full Administration and Congressional support for the line is its questionable financibility. Neither Congress nor the Administration wants to be caught in the bind of having to provide emergency financial aid to a floundering pipeline that is partly constructed. Financial support from the State would abet Schlesinger's stance and take some pressure off the federal government to serve as backup financier. Finally, in order to avoid Congressional

¹This section of the Export Administration Act of 1977 is popularly known as the "McKinney Amendment", named after Representative Stewart McKinney of Connecticut who sponsored it.

disapproval of exporting Alaskan crude, the Administration will have to play some of its political cards, particularly in the House of Representatives.

This almost wholly discretionary decision to support an Alaskan oil swap is in the hands of the Administration. The political investment it will have to make to avert Congressional veto indicates that a quid pro quo from Alaska may well be demanded. The most obvious quid pro quo that Secretary Schlesinger can recommend is a financial commitment to the gas line. In addition to the substantive rationale for trading the gas line financing for approval of an oil exchange, the timing of this exercise of leverage works for the Administration. Presumably, the exchange could not begin until after June 22, although the report recommending it to Congress could well be made before then. The Northwest project needs a positive commitment from the State as early as possible and will seek one during the current session of the Alaska Legislature. With Secretary Schlesinger's importance to future Alaska energy problems plus the oil exchange as a hostage, the State Legislature will be under extreme pressure to agree to financing the Northwest project.

IV. Leverage Based on Pre-1978 Natural Gas Law

Until 1978, the federal statutes most significant in regulating Alaska natural gas were the Natural Gas Act of 1938, 15 U.S.C. 717 et. seq., the Natural Gas Pipeline Safety Act, 49 U.S.C. 1671 et. seq., the Alaska Natural Gas Transportation Act of 1976, 43 U.S.C. 1651 et. seq., and the Emergency Natural

Gas Act of 1977, 15 U.S.C. 717 note. Many of the fundamental principles of state versus federal natural gas jurisdictional relationships were changed by the Natural Gas Policy Act of 1978, Public Law 95-621, which will be discussed at length in the next subsection of this report.

When Congress enacted the Natural Gas Act, it did not intend to preempt state jurisdiction over natural gas, rather it divided responsibilities into federal jurisdictional responsibilities and state jurisdictional responsibilities. There seems to be little doubt that Congress has the constitutional power to totally preempt state regulation of natural gas, which is a leverage threat that will be discussed later. While a trend toward ultimately preempting state regulation exists, that has not yet occurred.

The United States Supreme Court in 1947 rendered the clearest description of the responsibilities the Natural Gas Act assigned to the federal government:

"Three things and three only Congress drew within its own regulatory power, delegated by Act to its agent, the Federal Power Commission. These were: (1) the transportation of natural gas in interstate commerce; (2) its sale in interstate commerce for resale; and (3) natural gas companies in such transportation or sale". Panhandle Eastern Pipeline Co. v. Public Service Commission, 332 U.S. 516.

The principal functions that the Natural Gas Act left for states was the regulation of gathering and production of gas and the sale of natural gas to consumers in intrastate transactions. This state authority was based on the police power granted the states by the United States Constitution to enact and enforce legislation to protect the correlative

rights of owners of land within a common source of supply of oil and gas, to safeguard the public interest in oil and gas as natural resources, and to prevent or abate surface nuisances resulting from the operation of land for oil and gas purposes. The limitations constitutionally imposed on state exercise of its police power include abuse that amounts to the taking of private property without due process of law, unequal protection of the laws, impairment of contracts, and imposition of undue burdens on interstate commerce. If states avoid these limitations, then their police power is properly employed.

The jurisdictional responsibilities reserved to states (until enactment of the 1978 Natural Gas Policy Act) include, but are not limited to: imposition of state severance or production taxes attributable to extraction of natural gas; regulation of costs and procedures regarding compressing, gathering, processing, treating, liquefying or transporting natural gas; conservation of natural gas through production limitations, operational limitations, drilling regulations, well spacing, use limitations, regulations for secondary recovery and gas recycling, imposition of compulsory pooling and unitization requirements, plugging of abandoned wells, production proration, and related conservation funding. Generally, states created oil and gas conservation agencies to implement these conservation purposes through issuance of orders directing the discontinuance of wasteful practices, or requiring the institution of conservation measures.

While the Natural Gas Act was enacted for the purpose of closing the regulatory gap that existed between state and federal regulation of natural gas sales, particularly as they related

to interstate commerce, some gap has continued. States and the Federal Power Commission (now FERC) have fought over borderline cases, and more importantly, battles have been waged where seemingly overlapping jurisdiction exists, i.e., when an action either state or federal in nature has an impact on the jurisdictional responsibilities of the opposite level of government.

It is this struggle between federal and state overlapping and hiatus jurisdiction that gives rise to much of the potential leverage that natural gas law provides the federal government. In the paragraphs below, we will describe a series of potential leverage situations wherein FERC may act (or not act) under its pre-1978 natural gas law authority in a manner that may pressure the State of Alaska to provide financial support for the natural gas pipeline.

The most active conflict between federal and state regulations currently revolves around Shell Oil Company v. Federal Energy Regulatory Commission, 77-1652 and 77-1654, now before the United States Supreme Court. This case stems from FPC Opinion No. 539, 539-A, and 539-B, as well as FPC Order Nos. 539, 539-A, and 539-B, all issued in mid-1976. These opinions and orders purported to erase the distinction between "sales for resale" which is a federal jurisdictional matter, and the "production and gathering" exclusion contained in Section 1(b) of the Natural Gas Act, which delegates these responsibilities to states. The United States Court of Appeals recently overturned the FERC orders and it is the

Court of Appeals decision that is now on appeal to the United States Supreme Court.

The potential leverage that would be gained by the federal government over Alaskan State gas policy and jurisdiction would be tremendous if FERC is upheld by the United States Supreme Court. In essence, FERC, if victorious, could freely manipulate production from the North Slope,^{2/} impact all prices and tax revenues, and otherwise oust the State of Alaska from meaningful decision-making regarding development of the Prudhoe Bay field. Moreover, such federal decision-making would impact State North Slope oil revenues as the State would probably have little opportunity to insure that gas production did not unduly harm the ability to lift oil from Prudhoe Bay.

It is clear the FERC wants to increase its control over state natural gas policy decisions and that Congress seems to be leaning in this direction. If such control does become resident in FERC, then the ability to coerce the Alaskan Legislature into financing the natural gas pipeline will become quite substantial. A Supreme Court decision is due by mid-1979.

A second and more certain lever possessed by FERC springs from its traditional responsibility to issue final Certificates of Convenience and Necessity providing the go ahead for pipeline development. As part of its criteria for issuing such certificates, FERC must be convinced that adequate financing is available

^{2/} Among the functions FERC could possibly take on would be approval of well abandonments, imposition of drilling requirements, denial of NGL segregation, and establishment of production rates.

to complete the project and must take into consideration factors such as cost overruns and events that might test financibility. Northwest hopes to receive a final certificate for the Western and Eastern leg by mid-1979. It is clear the FERC can withhold certification based on Alaska's unwillingness to participate. This would be a clean and efficient means of forcing the State into a final decision. This is a time-honored and probable method for exercising leverage over the State of Alaska.

FERC may also exercise leverage over the State by informing Alaska that it will deny any requests by the State to take its royalty gas out of the interstate pipeline once said gas has been committed to the line. In all likelihood, there will not be a market for much of the State's royalty gas within the State at the date the natural gas pipeline is completed. Therefore, some or all of the royalty gas will have to be transported at first through the Northwest Pipeline. It is well established natural gas law that once a producer undertakes to sell gas from a lease, the producer may not thereafter take that gas in kind without FERC approval. See Superior Oil Company, Docket No. CI71-879 (1975).

Section 13(b) of the Alaska Natural Gas Transportation Act sought to avoid this consequence by authorizing Alaska "to ship its royalty gas on the approved transportation system for use within Alaska and, to the extent its contracts for the sale of royalty gas so provide, to withdraw such gas from the

interstate market for use within Alaska; the Federal Power Commission shall issue all authorizations necessary to effect such shipment and withdrawal subject to review by the Commission only of the justness and reasonableness of the rate charged for said transportation". While this provision has not been tested, there is much speculation that authorities contained in the 1977 Emergency Natural Gas Act, the 1978 Natural Gas Policy Act, and the 1978 Power Plant and Industrial Fuel Act can be utilized to override the power granted to Alaska by Section 13(b).

The Natural Gas Pipeline Safety Act enables the federal government to utilize safety standards as an effective leverage tool to induce State participation in the gas line. Because the Northwest Project has unparalleled construction and safety problems attached to it, the Department of Transportation has wide berth to use its authority to impose design, installation, inspection, testing, construction, operation, extension, or maintenance requirements that would effectively preclude development of the Project. Clearly, this slightly indirect approach can be used in several ways to impact the Alaska Legislature's decision. In addition to preclusion of development of the line, the Natural Gas Pipeline Safety Act can be used to foreclose the possibility of multiple spur lines or service to new industry in Alaska, and perhaps even to prohibit any economically significant use of North Slope natural gas liquids by the State.

With regard to spur lines, another method by which federal leverage can be imposed on the State Legislature is by threatening denial of rights-of-way grants over federal lands

in Alaska for spur line construction, spur lines, or any type of development. It is clear, by virtue of the wilderness recommendations in current (d)(2) legislation, the extensive wilderness study areas contained in said legislation, the lands to be studied for wilderness designation under Section 603 of the BLM Organic Act, and the existing or new federal conservation system unit withdrawals, that the federal government will be able to successfully obstruct many such spur lines or proposed developments if it so chooses. While this threat does not have the immediate force that a denial of a Certificate of Convenience and Necessity would have, it is one that must be considered as a long range possibility. It could gain in importance as proposals for villages seek to use royalty gas, or new industries begin to demand royalty gas. It should be noted that existing federal case law regarding rights-of-way access over wilderness or wilderness study areas has generally imposed a "primary purpose" test on requests for such access. Courts have stated that if the grant of such access does not comport with the primary purpose of the wilderness area, i.e., maintenance of wilderness values, then such access may be denied even though legislation seemingly guarantees the access or insures protection of valid existing rights.

Along this same line, Section 7 of the Natural Gas Act grants FERC the power to approve or deny producers' requests to abandon wells. The Supreme Court has restrained FERC's power to solely "facilities subject to the jurisdiction of the Commission" and thereupon not to leases which are production (non-jurisdictional) facilities. FPC v. Panhandle Eastern Pipeline Company, 337 U.S. 498, 509-512. The abandonment issue is also before the Supreme

Court in the Shell case. Denial of abandonment requests can be used as a threat against Alaska, particularly if abandonment is needed to preserve the oil reservoir.

In summary, the leverage most likely to be used by the federal government, based on pre-1978 natural gas law to induce Alaskan participation in the gas line would be denial of its Certificate of Convenience and Necessity for financing reasons (in the short run) and imposition of safety standards that would detrimentally impact Alaskan interests. By mid-1979, the decision in the Shell v. FERC case should be reached by the United States Supreme Court, and, if it in any way overturns the Court of Appeals determination, then substantial and easily usable additional leverage in the pricing, gathering and production arena will be available to the federal government. In the longer term, denial of applications for rights-of-way over federal land and other approvals necessary for spur line construction may well be used, as could denial of abandonment requests. Finally, should North Slope natural gas export rights ever become an issue, Presidential approval will be necessary to sanction such exports. (The President must find that natural gas exports from Prudhoe Bay are in the national interest, just as he must do for Prudhoe Bay oil).

V. Administrative Leverage Based on the Natural Gas Policy Act of 1978

On November 9, 1978, the Natural Gas Policy Act became law. Because of its recent vintage, hard facts regarding

federal leverage gained from this measure are few, but interpretations of the potential power granted the federal government by this legislation may be made. We have analyzed this statute on a section-by-section basis, highlighting the shifts in control and jurisdiction to the federal government (FERC and DOE) and away from states. The enactment of this recent legislation provides new-found federal leverage over the State of Alaska which can, if the Carter Administration so desires, be used to impose its will on State oil and gas decision-making.

An overview of the Natural Gas Policy Act demonstrates four general power shifts, all of which can be used in the future to coerce Alaska:

1. It imposes the first significant federal restriction on states' ability to impose severance and production taxes on natural gas extraction.

2. By obliterating much or all of the distinction between interstate and intrastate gas, it substantially reduces states' ability to utilize their police powers to conserve natural resources and to favor in-state economic growth.

3. It gives the federal government "emergency authority" which may be used to mandatorily allocate and distribute natural gas into the interstate market and out of the intrastate market, including Alaska's royalty gas.

4. It constitutes another step in the direction of greater federal oil and gas policy regulation and thereby is also a step away from state control of natural resources.

Any analysis of the Natural Gas Policy Act's significance to Alaska must view the Act from the standpoint of a natural gas producer state in which no intrastate natural gas shortage exists. By in large, this is the same status that states such as Texas or Louisiana are in, with the exception that those states have enormous in-state natural gas processing industry. Almost uniformly, legislators, regulators and energy specialists from producer states have viewed the Natural Gas Policy Act as an exploitation of intrastate consumers and producer states. Their opinions are substantiated by the "Joint Explanatory Statement of the Committee on Conference", Conference Report No. 95-1126. The Report contains their economic analysis, estimating that "the relative economic cost and benefits (of the bill) indicates interstate consumers, in the aggregate, will pay \$6 billion less for their energy between now and 1985 . . . intrastate energy costs could be as much as \$7 billion higher". Perhaps more importantly to Alaska, the conferees also concluded that "most of the supply response of natural gas is expected to move interstate . . . while at the same time intrastate sales volumes are expected to be lower". It should be noted that the Congressional Budget Office estimated that the cost to intrastate consumers will be higher than \$7 billion, and could possibly be in the neighborhood of \$14 to \$15 billion.

The State should be apprised of one particularly significant legal challenge to the impact that the Natural Gas Policy

Act will have on the balance of federal/state oil and gas regulatory jurisdictions. The case is titled Oklahoma, Texas, and Louisiana v. The Federal Energy Regulatory Commission, filed in the United States District Court for the Western District of Oklahoma in December, 1979 (hereinafter referred to as the OTL Complaint). To date, little in the way of substantive documents have been filed in that action, but we anticipate that this litigation may ultimately help determine the constitutionality of the Natural Gas Policy Act. The plaintiffs seek to overturn the Natural Gas Policy Act's incursion into previously state-controlled natural gas jurisdictions by theorizing that the Act exceeds the Constitutional grant to Congress of power to regulate "commerce among the several states", Article I, United States Constitution, Section 8, Cl. 3. The Complaint also alleges unconstitutionality based on invasion of state sovereignty and intergovernmental immunity, violative of the Tenth Amendment to the Constitution, and makes other allegations regarding violation of equal protection and due process rights of state citizens, as insured by the Fifth Amendment.

In their Complaint, plaintiffs allege several potential areas of new federal control over states, all of which could be used to exercise leverage over producer states such as the State of Alaska, if particular actions are desired by the federal government from a state. We have quoted from the plaintiffs' Complaint in the analysis below, to demonstrate how other producer states view the leverage threats imposed by the Natural Gas Policy Act of 1978.

A. Title I--"Wellhead Pricing"

This Title imposes maximum lawful prices under which several categories of natural gas may be sold, abolishes the clear pricing distinctions between intrastate and interstate natural gas, sets a maximum allowable price for Prudhoe Bay natural gas, establishes authority and criteria for pricing natural gas on a rolled-in or incremental basis and, in Sections 110 and 208, contains the most significant language regarding the Alaska natural gas pipeline and leverage over the State. Section 110 deals with state severance taxes and certain production-related costs, while Section 208 covers the pricing of Prudhoe Bay natural gas in the interstate market (some pricing authority over Prudhoe gas is also found in Section 109).

Leverage over Alaska stemming from the Natural Gas Policy Act will most likely involve the treatment of state severance taxes and production-related costs, Section 110.^{3/} This Section provides that a price for the first sale of natural gas shall not be considered to exceed the maximum lawful price allowable if the first sale price exceeds the maximum lawful price only to the extent necessary to recover:

"(1) State severance taxes attributable to the production of such natural gas and borne by the seller, but only to the extent that the amount of such taxes does not exceed the limitation of subsection (b); and

^{3/} The recent proposed decision from FERC covering North Slope conditioning costs which FERC intends to make them part of the maximum allowable price thus depressing the wellhead value, may be construed as the first use of Section 110 in a manner that can serve as leverage against Alaska.

(2) Any costs of compressing, gathering, processing, treating, liquefying, or transporting such natural gas, or other similar costs, borne by the seller and allowed for, by rule or order, by the Commission." (emphasis added).

The "subsection (b)" limitation on state severance taxes cited in "(1)" above provides that state severance taxes enacted on or before December 1, 1977, will be allowable costs that are permissible even if they cause the first sale price to exceed the maximum lawful price. If, however, such state severance tax was enacted after December 1, 1977, then it is included in the applicable ceiling price for the natural gas. The Act does provide that increases in state severance taxes above levels enacted on or before December 1, 1977, are excluded from the applicable ceiling price so long as they are applied uniformly to natural gas sold within the state in which it is produced and to natural gas sold outside the state in which it is produced. Such increases, however, are required to be incrementally priced under Section 203(a)(9) rather than rolled-in price.

Section 110 also defines "state severance tax" by stating that it includes "any severance, production, or similar tax, fee or other levy imposed on the production of natural gas--(1) by any state or Indian tribe . . . and; (2) by any political subdivision of the State if the authority to impose such a tax, fee or other levy is granted to such political subdivision under state law". The Conference Report states that the term is to be construed broadly and include any tax imposed upon mineral or natural resource production including an ad valorem tax or a gross receipts tax.

The Conference Report goes on to state that FERC, by rule or order, may make adjustments in ceiling prices for the costs described in Section 110 and that the authority to make such adjustments applies to all ceiling prices.

The leverage possibilities available to FERC over potential state gas revenues are enormous. FERC can manipulate the wellhead price through disallowance or allowance of certain field costs, FERC can reduce or limit state taxation via ceiling price adjustments that effectively disallow pass through, and FERC may impose incremental pricing on field costs and taxation that will provide disincentives to potential consumers and, in turn, reduce the value of state royalty gas and the total state revenues from taxation of producer gas.

Manipulation of Alaska natural gas ceiling prices and rolled-in versus incremental treatment decisions are the most probable pressure points that FERC will employ versus Alaska because their impact can be directed to Alaska solely, affect North Slope energy, involves only FERC (the most directly related federal agency) and result in a definable cost and revenue loss to the State. Furthermore, with the economics of the North Slope gas production so questionable, any harsh FERC decisions could shelve the project and cause substantial detriment to the State of Alaska. Furthermore, Alaska has already been schooled in the painful experience of receiving lower-than-anticipated wellhead prices for royalty oil and disappointing revenues from taxation of non-royalty North Slope crude. FERC is aware that a second such

"(1) Any portion of the first sale acquisition costs of such natural gas incurred by any intrastate pipeline which is not required to be incrementally priced under this title and

(2) Any amount incurred by any interstate pipeline, for transportation of such natural gas after delivery of such natural gas to such system,

shall be allocated to the rates and charges of such interstate pipeline in accordance with the general principles applicable on the date of enactment of this Act, for establishing rates in connection with the issuing of certificates under the Natural Gas Act for interstate pipelines".

The Conference Report in describing this Section states that the conferees agreed to require rolled-in pricing for any first sale not required to be incrementally priced and for transportation costs for gas transported through the Northwest project. Most importantly, the Conference Report goes on to state that provision of such rolled-in pricing was necessary, because they believed that private financing of the pipeline would not be available otherwise. "Rolled-in pricing is the only Federal subsidy, of any type, direct or indirect, to be provided for the pipeline." (emphasis added). House Conference Report No. 95-1752, Page 103.

The clear and unequivocal conferee's statement that no further federal subsidy of any type, direct or indirect, may be provided to the pipeline gives the federal inspector, FERC, the Department of Energy, or the President a clear Congressional mandate to use in justifying any decision unfavorable to the State, if that decision can in any way be interpreted as averting even the most remote federal subsidy. This provision is particularly threatening in that it may well be used to negate the pro-pipeline language in

the Alaska Natural Gas Transportation Act. Section 7 of that Act requires the federal inspector to "assure timely completion of construction schedules" and it also contains language dictating federal efforts to permit the expeditious construction and operation of the transportation system. Where legislative statutes conflict, the two tests most commonly applied by courts to resolve differences are to choose the statute that is (1) more specific and (2) more recent as the one that controls. Clearly, with regard to date of enactment (1978 versus 1976), the Natural Gas Policy Act pertains, and with regard to specificity, the same Act should control regarding any direct or indirect federal subsidy.

FERC may use this Conference Report language in many ways to impose leverage on Alaskan State decision-making. For example, FERC may choose to indefinitely study any and all pricing requests from Northwest or field cost determinations made by the State to assess whether some indirect federal subsidy may in fact be encompassed. By doing so, FERC could hold the pipeline project hostage until it is satisfied by either Northwest or the State that its demands have been met. This is the kind of carte blanche administrative authority that often turns out to be a sleeping giant in the hands of unfriendly regulatory agencies.

The same type of sleeping giant authority exists in Section 505 of the Natural Gas Policy Act, wherein subsection (a) (1) empowers the Secretary of Energy to intervene as a matter of right in any proceeding relating to the proration of, or other limitations upon, natural gas production which

is conducted by any state agency having regulatory jurisdiction over the production of natural gas. Section 505 should send shock waves through Alaskan Legislators and Administration decision makers in that it can be used freely by DOE to influence State oil and gas development and production decisions in a manner never before allowable. It should also be noted that the Secretary of Energy is allowed, by subsection (b) of Section 505, to obtain review of state oil and gas conservation agency decisions in state courts if those agency decisions are unsatisfactory to DOE.

The leverage that Section 505 gives the federal government over the State is almost unending. The Secretary of Energy may be able to overpower the State agency through the use of its vast resources, manpower and fact-gathering capabilities so that a record is created in any State proceeding involving oil and gas production that dictates a decision favorable to the DOE posture. Even if the State agency does not make the decision dictated by DOE's factual presentation, a reversal in court is always possible. Secretary Schlesinger could, if he so desires, make it plain to State authorities that without financial support for the gas pipeline he will direct his agency to actively participate in any Alaskan State proceedings dealing with oil and gas production.

It should also be note that Title I of the Natural Gas Policy Act contains provisions preempting certain state functions, at Section 205(d). Coupled with FERC's actions spurring the Shell case, this and other provisions of the Natural Gas Policy Act (in particular intrastate pricing provisions) demonstrate a firm policy toward federal

preemption of state oil and gas decision-making authority.

B. Title II--"Emergency Authority"

Sections 301 through 303 allow the federal government, once it determines that a natural gas supply "emergency" exists in any region of the country, to mandate allocation and distribution of natural gas supplies to interstate natural gas pipelines and away from intrastate markets and local distribution companies. This redistribution authority would definitely include Alaskan State royalty gas. This constitutes the first meaningful authority delegated to the federal government to disrupt in-state gas supplies. In the OTL Complaint, the plaintiffs allege that such disruption would cause the loss of state revenues from any intrastate gas sold above federal ceiling prices, reduce the state's ability to guarantee supplies to in-state industry and thus spur in-state industrial development, could create disincentives to substantial in-state production, could reduce and deter in-state exploration, and would generally reduce the gas supplies available to the citizens within the state and incur the secondary impact inherent in such in-state supply reduction.

While natural gas supplies are now fairly plentiful nationwide, the opportunity to use the emergency provision to control Alaskan royalty oil will often-times exist.

Although the Act does not provide authority to the federal government to allocate Alaskan royalty gas to other parts of the nation, except in the case of a Presidential declaration of emergency, a companion piece of legislation,

the Powerplant and Industrial Fuel Act of 1978, provides what may be essentially de facto allocation authority in non-emergency circumstances. Through an intricate set of exemptions and special provisions in the Powerplant Act, the Secretary of Energy and the Federal Energy Regulatory Commission, by simple management of these exemptions can shift natural gas from Alaska to other regions of the country to be burned by utilities at varying price structures. Since the Powerplant Act was passed at the end of the last session of Congress, along with the Natural Gas Policy Act (they were both part of the President's energy program), implementation of it and full comprehension of its various facets is in the embryonic stage. At the very least, it bears watching as a potential tool for DOE leverage over Alaska through usurpation of control over Alaska's royalty gas.

C. Title V--"Enforcement"

We have discussed above the enormous threat posed to continued Alaskan control of oil and gas conservation decision-making posed by Section 505, which allows the Secretary of Energy to intervene as a matter of right in state oil and gas policy proceedings. This is by no means the only leverage contained in Title V. Section 501 empowers FERC to administer the Act, but at 501(c), allows the Commission to delegate to any consenting state agency any of its functions with regard to setting ceiling prices or sales under existing intrastate contracts, setting ceiling prices for sales under intrastate rollover contracts, and for establishing maximum lawful pricing for certain categories of natural gas as specified in Section 109(a).

At Section 503(c), the Act provides for state authority to make determinations and waivers regarding a host of very significant natural gas production and pricing decisions. It also provides for federal reversal of state decisions. Throughout Title V, there are many opportunities for state agencies to play important roles in natural gas decision-making if they so choose. It would appear that the anti-state bias of the Natural Gas Policy Act would make it incumbent upon states to maximize their participation, wherever allowed, in order to protect their own natural resources.

In the OTL Complaint, the plaintiffs object bitterly to the heretofore unknown pressures imposed on them by the Natural Gas Policy Act. They allege that the Act purports to require the subject states, by and through their respective regulatory agencies, to assist in implementing and enforcing its pricing provisions. Furthermore, they believe that the Act coerces producer states to enact substantial local legislation, employ substantial numbers of additional state employees and accordingly, spend substantial state funds in order to implement a federal policy which they did not help to prepare, they do not agree with, and they find inconsistent with producer states' own regulatory policies. Additionally, they believe the Act forces upon the states federal choices as to how essential decisions regarding conduct of integral government functions are to be made and therefore impairs the state's ability to function effectively within the federal system. They request that the court find unconstitutional such provisions of the Natural Gas Policy Act which attempt

to coerce plaintiffs into enacting substantial state legislation, assigning state employees and expending considerable state funds to assist defendants in implementing the declared federal policy.

All of the objections raised by the three producer state plaintiffs pertain to Alaska. For example, it might behoove the State of Alaska to substantially enlarge its technical capabilities so that any intervention by the Secretary of Energy in state oil and gas production proceedings can be combatted in a manner satisfactory to sustain the State's decision in an appeals court. Other similar employment and administrative actions may be necessary to preserve State prerogatives in conserving its energy resources. These decisions are particularly critical when examined in the light of potential damage to the Prudhoe Bay Reservoir, if gas extraction is not managed properly. With the exception of near term DOE intervention in state production decision-making, the type of leverage imposed on Alaska by the administration and enforcement requirements of Title V are more of a continuing and long-range nature. Therefore, these levers are less likely to be utilized to induce financial participation than they would be to maintain or upgrade financial participation once the initial participation decision had been made.

VI. Indirect Administrative Pressure Points

There are an almost endless variety of federal regulatory and financial support programs that impact Alaska. Many of

these are operated by agencies that are part of the inter-agency taskforce participating in the natural gas pipeline, while other agencies have specific Alaska responsibilities or are related to energy. It would be pointless to list every program, so we have enumerated the specific situations where the federal government might foreseeably use its authority in the near future to pressure an Alaskan decision on the gas pipeline financing. We have also listed other programs that should be considered as conceivable leverage tools.

The Export Administration Act enables the federal government to limit exports of almost any goods or commodities. It is a program that has been used to implement Carter Administration policy decisions in the past and could conceivably be so used in the future. For example, nuclear exports have been restrained through denial of licenses under the Export Administration Act during periods when the Administration was actually promoting an anti-nuclear policy. Denials or delays of licenses to Alaskan interests, particularly covering oil, gas, fish, timber, minerals or other resources as well as processed goods such as LNG are always a possibility.

Environmental Protection Agency participation in the gas line has existed from the beginning and will continue. Alaska is unusual in that most of its air is pristine and its waters unpolluted. This triggers extremely restrictive EPA regulations, particularly non-degradation air quality limitations, that may be used to deter any development, including royalty gas-related developments. The Federal

Water Pollution Control Act may be used in a similar fashion, although perhaps not as effectively.

The State of Alaska is eligible for a disproportionate share of the coastal zone management funding available to the 50 states. This is an extremely important program to Alaska and one that can be withheld if the federal government chooses to squeeze the State on natural gas pipeline financing.

Commercial fishing development and creation of a new bottomfishing industry in Alaska is at or near the top of the State's economic priority. This is essentially a highly regulated industry in which the federal government, through regional fishery management councils, establishes maximum allowable catch limits for domestic and foreign fishing vessels. The National Marine Fisheries Service is an essential element in financing construction of fishing fleets. Moreover, fish processing facilities must satisfy water quality control regulations and EPA has evidenced interest in cracking down on fish processors, conceivably forcing them to shift operations out of Alaska. It is quite clear that Alaskan economic interests could be badly stung should the federal government choose to use its leverage over the commercial fishing industry as a means for influencing the State Legislature towards support for the Northwest Pipeline project.

The Department of Interior controls the majority of land in the State of Alaska. Among its powers are land use restrictions, land access restrictions, development controls, wilderness study decisions, Section 603 (of the BLM Organic

Act) reviews, and OCS sales and development. Moreover, Interior is charged with adjudicating the selection and conveyance process under which over 100 million of the 147 million acres guaranteed to the State and native communities remains to be conveyed. It would be extremely easy (and reasonably likely) for the Carter Administration to utilize the Interior Department as its leverage point for affecting State decision-making, since Interior is already in pitched battle with the State and would suffer little or no additional notoriety were it to hammer the State for natural gas pipeline financing as well.

Alaska is beholden to the federal government for many financial support programs, such as those administered by the Economic Development Administration, the National Marine Fisheries Service, the Farmers' Home Administration, and others. Many of these programs define all of Alaska as "distressed" or "rural" and therefore make the entire State and its citizenry eligible for financial support. These agencies would have some factual justification for withdrawing some parts of the State from the blanket "rural" or "distressed" categories. Such reconsideration would be a useful tool in coercing State decision-making, although we would doubt that this will be an approach adopted by the federal government. The reason for our skepticism is that retrenching these programs would affect the wrong people, since the link-up between social services and natural gas financing is remote and unjust.

All Presidents have threatened or actually imposed budget cuts to influence politicians throughout the United States.

Alaska is particularly dependent on federal funding for its economic well-being. The charts found in Appendices 3 and 4 describe federal funds, broken down by agency and program, inuring to the State of Alaska in the most recent fiscal year in which such figures are available, FY 1977. The most likely programs which may used to influence State policy decisions include:

1. Forestry and Land Mangement--these programs constitute over \$110 million, more than half going to economically deprived Southeast.

2. Military Spending--more than \$500 million, 60 percent of it in military and civilian pay, flows in to the State of Alaska each year. Much of this is discretionary funding that could be cut back by the President in any future budget.

3. Federal Employment (generally)--While we have no specific dollar figures for federal employees in the State, reduction of any number of federal programs could yield much unemployment, decrease State product, and produce substantial economic pressure on the State.

4. The Alaska Railroad--this lifeline of Alaska's economy has been under serious assessment by the Department of Transportation and trial balloons have been floated regarding phase-out of federal ownership and support. This would be a tremendous blow to the State, but within the full discretion of the Carter Administration.

5. Coast Guard and FAA--these two federal services are always susceptible to cutbacks; the Coast Guard is particularly

important in future years as fisheries development gains momentum. In fiscal year 1977, approximately \$100 million was spent in-state on Coast Guard and FAA funding.

6. Federal Highway Program--in FY 1977, approximately \$140 million was spent on the Alaska Highway System. This program is highly labor intensive and has a great impact on tourism, and a secondary impact on most other state industries. A reduction of this program would severely harm the State economy.

In Section VII(c) to follow, we have listed a series of statutes, most of which have spawned regulatory programs that could be employed to exercise leverage over Alaska. These programs are less likely to be utilized as leverage than the ones listed above.

VII. Legislative Leverage

A. The 96th Congress

On January 15, 1979, the 96th United States Congress convened. It has before it the Alaska National Interest Lands legislation, and will soon receive the Carter Administration's recommendations for approximately 5 to 6 million acres of wilderness land in Alaska under the RARE II program. These are two (but not the only) legislative proposals that will be brought up in the 96th Congress that are of great significance to Alaska.

The (d)(2) legislation is familiar to most Alaskans. Clearly it could be used to impose a pro-financing decision on the

State Legislature if the Carter Administration chooses to do so. The Alaska Lands legislation will be finally determined in mid-1979, and many attempts will be made by Alaska to gain concessions. Unfortunately, the State has few bargaining chips available to it. If the Administration is committed to development of the gas line--as Secretary Schlesinger already is--then State participation would be a valuable card for the State to play in order to gain important concessions on the land ownership and management issues contained in the (d) (2) bills. We believe this would be a likely possibility, in the event Secretary Schlesinger convinces the Carter Administration to push for State pipeline financing.

On or about April 1, 1979, the Carter Administration is expected to make recommendations to Congress for wilderness designation covering National Forest lands recommended under the RARE II program. The Forest Service's initial recommendation includes 5.6 million acres for wilderness in Alaska, but that number is subject to adjustment in the final legislative recommendation. In any event, the eventual wilderness designations are likely to threaten serious economic consequences in Southeast Alaska. Once again, a cutback of Southeast Alaska wilderness acres could be offered to State leaders in exchange for gas pipeline financing. We believe this type of tradeoff would be less likely than a (d) (2) bill tradeoff, since interests throughout the State, rather than just in one region, can be compensated in a negotiation involving the (d) (2) bill.

The 96th should also take up water development program funding, including the Susitna dam. This proposed project

is a good candidate for federal opposition, especially if (d) (2) or State gas pipeline participation are still hot issues when it is considered.

Needless to say, should the Administration propose to export North Slope oil, then Congress will have a great opportunity to exact a toll from the State for not disapproving the oil exchange.

Several other measures scheduled for the 96th Congress warrant some attention. Legislation covering LNG plant siting will receive serious consideration as will legislation to determine the future of former-Naval Petroleum Reserve No. 4. The Airport Development Aid Program is scheduled for re-authorization in 1979. Historically, this program has pumped close to \$50 million per year into Alaska and much of that money has gone to smaller airports. It is an example of low profile legislation that often times is used to influence politicians, either on a State or federal level.

B. Alaska-Related Legislation from Recent Congresses

Generally, Congress is most likely to amend legislation in the years immediately following enactment because problem areas become most apparent during that period. Moreover, Congress most actively oversees recently passed legislation so that its intentions are not modified by implementing federal agencies. We have reviewed Alaska-related legislation enacted in the 94th and 95th Congresses in order to assess the likely areas for Congressional reconsideration and possible influence on future Alaskan decision-making.

The last two Congresses have enacted an extraordinary volume of legislation affecting the well-being and future of

Alaska. In the chart below, we have listed Alaska-related legislation in the last two Congresses and have placed asterisks next to the particularly important statutes. The last four years (five years if 1979 is included, assuming a (d) (2) bill passes this year) constitute a remarkable period in which long-term determinations of public land law and use in Alaska have been made, gas and oil pipeline decisions have been dictated, amendments to the Alaska Native Claims Settlement Act have been approved the possibility for a General Stock Ownership Plan has been legislated, many decisions regarding commercial fishing development have been made, and energy legislation such as the Outer Continental Shelf Lands Act and the Natural Gas Policy Act have become law. The future Congressional amendment of any of these statutes to the detriment of Alaskan interests could be used as a legislative weapon to impose pressure on the Alaska Legislature to yield to the demands of Congress. A great many congressmen and senators represent constituents who are in the service area for the proposed Northwest pipeline. Northwest Pipeline Company has good relations with many of these legislators and could promote a program of pressure through them geared to influencing the Alaska Legislature. There may be a substantial possibility of such an attempt in the event Northwest receives a cold shoulder from the State of Alaska on financing proposals.

ALASKA-RELATED LEGISLATION* ENACTED IN
THE 94TH AND 95TH CONGRESSES

TITLE OF LEGISLATION

PUBLIC LAW NUMBER

95th Congress-Second Session (1978)

* Alaska Native Claims Settlement Act Amendments	PL 95-178
Endangered American Wilderness Act of 1978	PL 95-237
National Forest Management Act amendments	PL 95-233
Redwood National Park, Expansion (including private land indemnity fund)	PL 95-250
Merchant Marine Act, 1936--Financing Fishing Vessels	PL 95-257
Cooperative Forestry Assistance Act	PL 95-313
Forest and Rangeland Renewable Resources Research Act	PL 95-307
North Pacific Fisheries Act Amendments	PL 95-326
Bureau of Land Management Authorization, Appropriation	PL 95-352
Surface Mining Control and Reclamation Act Amendments	PL 95-343
* Outer Continental Shelf Lands Act	PL 95-372
Alaska Native Claims Settlement Act-- Kake, Alaska--Trust Lands	PL 95-487
Anadromous Fish Conservation Act	PL 95-464
National Wildlife Refuge System-- Acreage Payments	PL 95-469
Port and Tanker Safety Act	PL 95-474
Fish and Wildlife Improvements Act	PL 95-616
National Parks and Recreation Act	PL 95-625
Endangered Species Act Amendments	PL 95-632
Energy Tax Act of 1978	PL 95-618
National Energy Conservation Policy Act	PL 95-619
* Natural Gas Policy Act of 1978	PL 95-621
* Powerplant and Industrial Fuel Use Act of 1978	PL 95-620

95th Congress-First Session (1977)

* Alaska Native Claims Settlement Act Amendments (Cook Inlet Exchange)	PL 95-178
Alaska Natural Gas Transportation Act-- approval	PL 95-158
Chugach and Tongass National Forests, Alaska--Homesites	PL 95-174
Clear Air Act Amendments of 1977	PL 95- 95
Surface Mining Control and Reclamation Act of 1977 (includes Special Alaska Provisions)	PL 95- 87

* Where the legislation listed is of unusual importance to the State, an asterisk (*) has been placed next to it.

TITLE OF LEGISLATIONPUBLIC LAW NUMBER

Fisheries Conservation Zone Transition Act of 1977	PL 95- 73
Emergency Natural Gas Act of 1977	PL 95- 2
* Export Administration Amendments of 1977 (includes Limit on Export of North Slope Crude Oil)	PL 95- 52
Federal Water Pollution Control Act Amendments	PL 95-217
Fishermen's Protective Act of 1967--extension	PL 95-194
Land and Water Conservation Fund Act	PL 95- 42
Maritime Appropriation Authorization Act	PL 95-173
Soil and Water Resources Conservation Act	PL 95-192

94th Congress-Second Session (1976)

Alaska Native Claims Settlement Act--Klukwan	PL 94-456
* Alaska Natural Gas Transportation Act of 1976	PL 94-586
Airport and Airway Development Act Amendments of 1976	PL 94-353
* Coastal Zone Management Act Amendments of 1976	PL 94-370
Commercial Fisheries Research and Development Act of 1964	PL 94-485
Endangered Species Act Amendments	PL 94-359
Energy Conservation and Production Act	PL 94-385
Environmental Research, Development and Demonstration Authorization Act	PL 94-475
* Federal Land Policy and Management Act (the "BLM Organic Act")	PL 94-597
* Fishery Conservation and Management Act of 1976	PL 94-265
Indian Health Care Improvement Act	PL 94-437
Klondike Gold Rush National Park, Alaska	PL 94-323
* National Forest Management Act of 1976	PL 94-588
* "Mining in the Parks" Act	PL 94-429
National Sea Grant Program Act	PL 94-461
National Wildlife Refuge System Administration Act of 1976	PL 94-223
Natural Gas Pipeline Safety Act Amendments of 1976	PL 94-477
* Naval Petroleum Resources Production Act of 1976	PL 94-258
Water Resources Planning Act	PL 94-285

TITLE OF LEGISLATIONPUBLIC LAW NUMBER94th Congress-First Session (1975)

Alaska Highway Act	PL 94-147
Alaska Native Claims Settlement Act, Amendments	PL 94-204
Forest Service--Timber Road Construction	PL 94-154
Forest Service Programs--Cooperative Agreements	PL 94-148
Offshore Shrimp Fisheries Act Amendments of 1975	PL 94- 58

C. Other Legislative Leverage

Finally, Congress perennially oversees implementation of many of its statutes, even though those statutes were not recently enacted. This oversight and amendment process, and also the authorization process that is required to keep many programs afloat, poses areas of possible legislative leverage over Alaska. The list below includes existing legislation that may well be the subject for Congressional reconsideration over the next several years. The subject matter of the legislation below has some direct impact on Alaska:

1. The Endangered Species Act
2. The Marine Mammal Protection Act
3. The Commercial Fisheries Research and Development Act of 1964
4. The Wilderness Act of 1964
5. The Deepwater Port Act of 1974
6. The Marine Protection Research and Sanctuaries Act of 1972
7. The National Sea Grant Program
8. The United States Coast Guard
9. The Fisheries Development Act

10. The National Aquaculture Legislation
11. The Water and Power Development Authorization Act
12. The Emergency Petroleum Allocation Act
13. The Airport and Airway Development Act
14. The Alaska Hydro Electric Power Development Act
15. The Clear Air Act
16. The Coastal Zone Management Act of 1972
17. The Energy Conservation and Production Act
18. The Energy Policy and Conservation Act
19. The National Environmental Policy Act
20. The Export Administration Act of 1969 and Amendments
21. The Federal-Aid Highway Act
22. The Fish and Wildlife Act of 1956 and Amendments
23. The Mineral Leasing Act and Amendments
24. The National Wildlife Refuge System Administration Act
of 1966 and Amendments
25. The National Gas Pipeline Safety Act of 1968 and
Amendments
26. The North Pacific Fisheries Act of 1954 and Amendments
27. The Public Works and Economic Development Act of 1965
and Amendments
28. The Safe Drinking Water Act and Amendments

APPENDIX 1

Docket No. CP75-96
First Supplement

EL PASO ALASKA COMPANY
TRANS-ALASKA GAS PROJECT

Financing

Explanation of Proposed Financing Plan

This exhibit sets forth an illustrative plan of El Paso Alaska for financing those facilities in Alaska--the 809 mile 42" O.D. pipeline and LNG plant and terminal (hereinafter called the "Alaskan Facilities") for which a certificate of public conveyance and necessity is sought. However, El Paso Alaska points out that many factors, some of which are unknown at this time, will affect the financing as finally arranged. In particular, conditions in capital markets are unpredictable over the extended period which is expected to be required to obtain a certificate, make financial arrangements and construct the facilities.

The cost of the Alaskan Facilities is estimated to be approximately \$4 billion in 1973 dollars. El Paso Alaska's illustrative financing plan contemplates raising these funds in amounts which would result in a ratio of 75% debt and 25% equity at the time of full deliveries. El Paso Alaska's objective is to maximize the amount of fixed-rate, long-term debt capital employed in the enterprise and thereby to minimize the cost of funds. It is realized, however, that there are practical limits to the ratio of debt to equity which can be achieved and a 75%/25% ratio is regarded

as a maximum. Among other factors affecting El Paso Alaska's ability to maximize the use of debt are the provisions of the tariff and other contractual agreements to be approved by the Commission which will be critical in that they directly effect the degree of security afforded prospective investors.

El Paso Alaska further realizes that one company cannot be expected to raise the required amount of financing, but it believes that the funds can be provided primarily by a large group of companies, which will be the beneficiaries of the project, contributing equity and contractual support for the issuance of debt securities.

Both equity and debt investors in the enterprise covered by the application at Docket No. CP75-96 will require assurance that their respective investment goals will be met. The equity investors' goal is assurance of an adequate return on his investment; the lenders' goal is an assured return of principal and interest under all conditions. The key elements, in establishing to the investors' satisfaction that their goals will be met, are the following:

- (1) Satisfaction as to overall feasibility, including proven gas reserves, technical feasibility and assurance of markets;
- (2) A tariff governing all transportation contracts which permits the Applicant to pass through to the buyers of the gas all operating and financial costs incurred by the Applicant under all circumstances including force majeure, and an adequate return on equity; and
- (3) Contractual assurances or guarantees that the project contemplated will be completed and capable of operating as specified by the Applicant. The source of these assurances cannot be precisely identified at this stage and must await the award of a

certificate or at least a substantially more advanced status of the proceedings covering the instant application.

Debt:

Primary source of the \$3 billion debt component is expected to be a combination of the United States institutional private placement market and U.S. banks. The institutions involved would be primarily insurance companies and public and private pension funds. They would purchase first mortgage bonds having a first lien on the facilities and a pledge of the transportation contracts. In this regard, El Paso Alaska believes the attainment of an "A" rating on the bonds from the recognized bond rating agencies is critical. The bank syndicate would include a substantial number of the country's largest banks. Their participation would take the form of short-term construction loans and possibly, intermediate term loans. It should be possible, in addition, to raise significant amounts of borrowed funds in the form of credits from material suppliers and under certain circumstances, from the sale of securities to the public. The debt portion of capitalization would be amortized from cash flow from operations and would have a final maturity of 20 years from the beginning of operations.

Equity:

Source of the \$1 billion equity portion of the financing is expected to be a large group of natural gas transmission and distribution companies which would enjoy the benefits of the addition of Alaskan gas to their supplies, either directly or through displacement as such concept is described in the instant proceeding.

The precise composition of the group cannot be determined at this time. El Paso Alaska believes, however, that under any reasonable set of assumptions as to the group's constituency, the companies involved should have the financial capability to assure that the required equity funds can be raised. El Paso Alaska further believes the companies of the group will have the ability to enter into appropriate contractual arrangements to support the 75% of capitalization to be raised as debt.

The major oil companies who will produce the gas may very well be motivated to become participants in some manner in the financing of the Trans-Alaska Gas Project facilities in view of the substantial economic benefit to them of the sale of their gas. Such participation could take a variety of forms; common or preferred stock, subordinated debentures, or contractual arrangements which would bring their credit capacity to the financing. They would, of course, require compensation commensurate with the financial importance of their role.

APPENDIX 2

April 2, 1975

MEMORANDUM

TO: The Honorable Jay S. Hammond
Governor

FROM: Avrum M. Gross
Attorney General

RE: Recommendation of Gas Pipeline
Task Force

On December 2, immediately after assuming office, you appointed me to chair a task force to review the State's posture concerning alternative transportation systems for North Slope gas. The task force was composed of the Commissioners of Environmental Conservation, Fish and Game, Revenue, Economic Development, Community and Regional Affairs, Commerce, Natural Resources and Highways, as well as the Director of the Division of Policy Development and Planning. At times Lieutenant Governor Thomas has participated with us in our deliberations and, of course, you have from time to time sat in on the sessions as we evaluated information made available to us.

The problem as you stated it was to make an unbiased, comparative evaluation of the TransAlaskan and Canadian routes for transportation of North Slope gas so as to determine what route would best serve the interests of the State of Alaska. Prior to the formation of the task force, you had publicly stated

April 2, 1975

that you favored a TransAlaskan route on the basis of information available to you. Upon assuming office, a great deal more information became available, as well as the machinery to do a comprehensive review of the competing projects. You asked that we consider whether or not your support of a Trans-Alaskan pipeline was justified in light of detailed information developed by the task force.

Your prior support of the Trans-Alaskan pipeline was consistent with the position of the previous administration. Upon undertaking a review of the competing projects, we found that a substantial amount of work remained to be done in evaluating the two proposals. The State had intervened in the legal proceedings before the Federal Power Commission and retained counsel in Washington, D.C. to present the State's position, but until this task force embarked upon its efforts the State's position consisted more of enthusiastic support for an Alaskan route for a pipeline than of careful analysis. You advised the task force that whatever position was ultimately adopted by the State, you wanted to be able to rationally support it and defend it before the Federal Power Commission or Congress should that body ultimately take jurisdiction over the matter. Faced with that mandate, the task force has met regularly since December and has increased its work substantially in the last two months so as to be able to make a recommendation to you prior to initiation of the FPC hearings. The prehearing conference for that proceeding will be April 7, so we are pleased to have met the deadline.

Our efforts have been directed to a comprehensive review of material developed in connection with both projects.

That material was made available primarily from the participants, Alaskan Arctic Gas and El Paso Alaska, who were required to develop the data for submission to the FPC. Representatives of both Arctic Gas and El Paso have appeared before the task force and made extensive presentations concerning their plans. The task force has also utilized consultant studies as a source of knowledge.

As a result of our review, it is the recommendation of the task force that you reaffirm support of a Trans-Alaskan transportation system for natural gas from the North Slope. We will in this report outline the basis for our conclusions. We will not include here the backup data on which our conclusions are based, but we have that data compiled for your review when you wish to make such a review.

A. The Nature of the Projects.

There are basically two competing systems for the transportation of North Slope gas to the continental United States. The first is the so-called Canadian route. Under this proposal, which has been made by the Arctic Gas consortium, gas from Prudhoe Bay would be transported by means of a large-diameter pipeline from Prudhoe Bay east across the Canadian border to a point somewhat south of the Mackenzie River Delta. At that point the pipeline carrying Alaskan gas would join with a lateral from the Mackenzie Delta region which would carry Canadian gas. The main line formed by the convergence of these two laterals follows the Mackenzie River Valley south through the Northwest Territories. After leaving the river valley,

this line continues south to Caroline Junction, Alberta. At Caroline Junction, the main 48-inch pipeline diverges into two pipelines; one heads southwest to the Canadian-Idaho border and the other heads southeast to the Canadian-Montana border. New pipelines which are proposed for construction in the Lower 48 would receive the gas at these border points and transport it to markets in Washington, Oregon and California in the case of the western pipeline and to markets in the midwest and east in the case of the eastern lateral. Theoretically, any surplus Canadian gas from the Mackenzie Delta would also be available for distribution in the United States, though the existence of that surplus is somewhat speculative.

The estimated cost of this transportation system is estimated by the consortium to be 8.3 billion dollars, not all of which is allocable to the Alaskan transportation network. The portion of the price which is allocable to the Canadian lateral should not affect the price of the American gas transported by the line.

The alternative to the Trans-Canadian system is a Trans-Alaskan route which handles the gas in a more complicated manner. This proposal, presently advanced by El Paso Alaska, would take the gas by means of a large-diameter 42-inch pipeline from Prudhoe Bay down the existing corridor of the Alyeska Pipeline. On approaching the southern terminus, the line would leave the pipeline corridor and go to Gravina Point on Prince William Sound. The applicant for the Trans-Alaska line intends to build

at Gravina Point an LNG plant which would reduce the gas to liquefied form. El Paso also proposes to construct a fleet of cryogenic tankers which would then take the liquefied gas to California, where the LNG would be reconverted to its gaseous state. At least initially, all of the North Slope gas delivered to California would be physically consumed on the west coast. This in turn would free gas presently being transported from Texas and New Mexico to the west coast, which could then be made available to markets in the midwest and east via existing distribution systems. If gas deliveries from Alaska increase to the extent that not all of the gas can be consumed in the west, it will be possible to reverse the direction of existing lines. These lines can then be used to transport gas from California eastward to Texas and Louisiana where the gas could be flowed into existing transportation systems and moved to the east and midwest. Although this transportation system is complex, a review of the system by Arctic Gas concludes (somewhat reluctantly) that this system is feasible and, of course, El Paso always has maintained the workability of this approach. This transportation system, including the pipeline, the cryogenic tankers, the LNG plant, the regasification plant, and facilities needed to effectuate displacement is estimated by El Paso in 1973 dollars to be 6.7 billion dollars. An analysis prepared by Arctic Gas critiquing the El Paso project indicates the more realistic figure on the basis of today's dollars would be 8.3 billion dollars, and while that figure may be inaccurate, there is no question but that

the cost of the El Paso proposal is substantially higher than set out in its application. Assuming the El Paso project costs approximately the same as the Arctic Gas project, it will nonetheless be more expensive for the delivery of American gas alone, as the Arctic Gas project will cover transportation of both American and Canadian gas.

Both projects involve the loss of some of the gas in the transportation system itself. The best estimate we have is that the Arctic Gas proposal will involve utilization of approximately nine to ten percent of the gas for energy in transit. The El Paso loss will be considerably higher--approximately 16 percent.

B. Criteria for Assessment.

The basic standard we have used in evaluating these two projects is what is best for the interests of the State of Alaska. We have sought to evaluate which route would produce the greatest benefits for the State in the long run. In evaluating those benefits, we have attempted to categorize them in two basic groups, which incidentally is the same basic grouping the FPC will make in its hearing procedure. The first is environmental. We have tried to evaluate the environmental effects of each line so as to consider the impact each will have on the State. Second, we have tried to consider the long-term economic impact of the line. That investigation has involved a study of the alternative effects of the two lines upon such things as royalty payments which would be made to the State, severance taxes, and property taxes. We will outline our general findings in these two areas.

I. ENVIRONMENTAL IMPACT. Unlike the quantitative measurements which can be applied to revenue comparisons, evaluation of environmental impact is a highly subjective process. There was no clear sentiment in the task force that one route or the other was better from an environmental standpoint. Rather, the conclusion was that each proposal had both benefits and detriments. It was the feeling of the group that, while the choice was not clearcut on the basis of a purely environmental comparison, it should be the State's obligation in the forthcoming FPC proceedings to insure that the detriments we have identified be minimized insofar as possible. We will outline the primary benefits and detriments of each route here, though as I have noted, they were not in themselves the basis for the group's recommendation.

(a) Trans-Alaskan Route.

Advantages

1. Without doubt, the most important environmental asset of a Trans-Alaska route is the fact that the gas pipeline could be constructed in an existing transportation corridor, a corridor which has been studied intensively and about which a tremendous amount of environmental information has been gathered. As construction of the Trans-Alaska oil pipeline proceeds, more information regarding construction practices, revegetation, protection of stream crossings, and other important techniques will be developed.

2. Existing facilities, such as TAPS, haul road, construction camps, access roads, existing highway system, spoil disposal sites, material sites and other critically important ancillary needs could be made available for use to

construct the gas pipeline.

3. A Trans-Alaska gas pipeline would parallel many streams along the corridor in the Arctic, instead of transecting them, which means that the total number of stream crossings on the ecologically sensitive North Slope is reduced along this route.

4. There is a dearth of knowledge about the fishery resources of the Arctic, particularly the offshore fisheries. However, the Alaska gas pipeline route parallels the Sagavanirktok River; our knowledge of its fishery resources is much more detailed than any other river on the North Slope. This greater base of knowledge can be drawn on to minimize the adverse impact on the North Slope fishery, if a Trans-Alaska gas pipeline is built.

5. Natural gas is the cleanest available fossil fuel. For this reason, it is in great demand in those areas of the nation which suffer from air pollution problems. An Alaskan route would insure that some day, if the need should arise, Alaskans could use their royalty gas as a low pollution source of energy. An Alaskan route would preserve that option; a Canadian route would not.

Disadvantages

1. An Alaskan route will mean substantial additional development in the State, particularly along an already heavily impacted pipeline route. With this development will

come the accompanying stresses of "boom growth", inflation, more people and possibly a large tidewater development to liquefy the gas for shipment to the Lower 48 states. This latter development could be sizable and may lead to extensive development in an area which is presently pristine.

2. There may be physical, biological and chemical effects from construction and operation of an LNG plant at tidewater. Excess heat from this process would be discharged from the plant and could have an adverse environmental impact. However, we estimate that this impact may be minimal.

3. Secondary development, spurred by the existence of an LNG facility and the availability of natural gas for industrial uses may cause greater environmental problems than the LNG development itself. An associated large petrochemical industry at tidewater would create its own environmental and socio-economic problems.

4. Any new development inevitably means more people and a new LNG facility built in a presently undeveloped area will mean that a new community may have to be constructed, or that existing communities will have to wrestle with significant new growth. Providing the basic services, such as water, sewer, health facilities, schools, etc., may place a severe burden on both State and affected community resources.

5. The environmental hazards of shipping LNG in cryogenic tankers are probably not of sufficient magnitude to be worrisome (especially when compared to shipping crude

oil by tanker), but the safety hazards to the ships and personnel may be substantial.

6. The energy loss, in the liquefaction process, is an environmental liability, especially in an era when energy conservation is needed.

(b) Trans-Canada Route

Advantages

1. Development within Alaska would be minimal if an Alaska-Canada gas pipeline were constructed. The tidewater development of LNG facilities, and tanker movement of the LNG would be eliminated by an overland route from Prudhoe Bay to the midwest. Also, development activity along the Trans-Alaska pipeline corridor would be eliminated.

2. The Alaska-Canada route will cause less problems in Alaska because of the relatively short distance that the pipeline would be within Alaska's borders (from Prudhoe Bay east to the Canadian border). In this sense, however, we are "trading off" Alaskan environmental problems to Canada.

Disadvantages

1. Any viable Alaska-Canada route will undoubtedly breach the ecologically fragile Arctic National Wildlife Range. This range, which is under consideration as a wilderness area, is the last remaining area of the Arctic Coastal Plain in Alaska and perhaps in the North American Continent which is not presently committed to development. An Alaska-Canada pipeline through this area would undoubtedly be the first in a long line of petroleum-related developments in the Range.

Therefore, a decision to route the gas pipeline through the Range may, in effect, be a decision to commit the last untouched wilderness area on Alaska's North Slope to full-scale oil and gas development.

2. A gas pipeline running east to the Canadian border from Prudhoe Bay transects many north-south Arctic streams and may have a serious environmental impact on the North Slope's fish resources. As the pipeline is refrigerated below the freezing point of water, its presence under streams and rivers may impact on natural freezing and thawing processes. Winter survival of fish populations, which in the Arctic is directly tied to adequate supplies of water, may be jeopardized by localized and downstream effects that would be created by a pipeline buried under streams and rivers. In addition, siltation caused by the construction process and stream bed disturbances could have major impact on aquatic habitat.

3. Advocates of an Alaska-Canada pipeline state that snow and ice roads would be used to support construction activities, which would avoid the need to build a permanent access-haul road network. However, there are substantial environmental problems associated with ice road construction. Heavy construction vehicles, rumbling over ice and snow roads, can cause damage to the tundra which may lead to serious subsidence, solifluction and erosion problems. As mute testimony to this fact, swaths of dead vegetation remain today in Naval Petroleum Reserve Number 4 more than 20 years after exploration crews

traveled on ice roads searching for oil and gas. Also, there appears to be a very real question regarding the availability of sufficient snow and water to construct snow and ice roads. Precipitation on the Arctic Slope is light, averaging four to eight inches annually. Therefore, snow availability--coupled with the lack of adequate sources of water for artificial snow manufacture--could be a serious factor in limiting construction of snow and ice roads along an Alaska-Canada pipeline route. In any event, maintenance of the line would utilize all-terrain vehicles at any time of year, with subsequent permafrost and tundra degradation.

4. Wildlife along an Alaska-Canada route will undoubtedly be adversely impacted by construction of the gas pipeline. A route which knifes through the coastal plain of the Arctic National Wildlife Range would breach untouched caribou calving grounds, would traverse and possibly interfere with the denning area and normal movements of a distinct polar bear population, and encroach upon significant resting and feeding grounds utilized by snow geese in preparation for their nonstop migratory flight to the contiguous United States.

5. The Canadian segment of an Alaska-Canada gas pipeline route would carry a very high environmental price tag, as it would traverse a very fragile area which has been touched only lightly by the machines and hands of man. Environmental impact of an Alaska-Canada gas pipeline does not end at the Yukon border; we Alaskans cannot close our eyes to the very

real environmental problems that would be associated with the Canadian leg of the pipeline route. The route traverses some of the most severe permafrost problem areas on the North American continent. Therefore, when writing the equation for determining the true environmental costs of an Alaska-Canada route, the serious problems in Canada must also be considered.

II. ECONOMIC IMPACT. One factor which has substantially affected our analysis in the economic sphere is concern for the possibility that neither the El Paso nor the Arctic Gas proposals may be completely economically viable. Of course, neither the Arctic Gas consortium nor El Paso have indicated in their applications to the Federal Power Commission that there is any real economic risk in the project. Both applicants have submitted cost data which, on the surface, seems to show that gas can be delivered to United States markets at competitive prices. The difficulty is that we find it hard to accept these estimates as completely reliable in light of both general and Alaskan experience with major construction projects of this magnitude. More than two years before the Trans-Alaska oil pipeline is expected to go on stream, its final system cost is now estimated at more than five times the initially announced figure. Overruns of 50 to 400 percent are the rule, rather than the exception, in large custom designed and built engineering projects such as electrical generating plants, manufacturing plants pioneering new technology (G. M.-Lordsville), sports stadiums and coliseums (New Orleans, Seattle), airports,

April 2, 1975

urban transit systems (BART, Washington Metro), etc. Accordingly it is reasonable to regard the applicants' pro forma cost figures as establishing only an order of magnitude and a base for escalation far in excess of the rate of general inflation.

Our review of the information available indicates to us that both projects can be projected at an initial cost of 8-8.5 billion dollars, and taking into account the certainty of continual inflation, the near certainty of delays and other difficulties that will occur before either project can be completed, a more realistic estimate for either project would be at least 10 billion dollars. This last figure might well be qualified by the expression "plus 50 percent or minus 20 percent".

The significance of this initial cost is that it will necessarily require that tariffs for the transportation of this gas be high--so high in fact as to make the gas possibly noncompetitive with alternate fuel sources. A detailed accounting analysis of the necessary cash flows would be as futile and misleading as detailed cost estimates in judging the overall project viability. Because of engineering, cost and timing uncertainties, a very general procedure is probably as adequate for our purpose as an intensive critique of the applicants' pro forma income statements. Supposing the \$10 billion investment were to be depreciated at five percent per year and that the entire investment had to produce a rate of return of 10 percent, the initial annualized capital costs would be 1.5 billion dollars. Assuming further

that either system would be capable of delivering into the existing natural gas distribution system of the Lower 48 states one quadrillion BTU (quad) per year, the average capital costs at this level of throughput would be \$1.50 per million BTU delivered. Assuming operating costs other than fuel to amount to 10 per cent of the capital costs, a wellhead price of only 25 cents per million BTU would bring the delivered costs at the U.S.-Canadian border or out of a regasification plant on the west coast of the United States, to \$1.90 per million BTU.

The assumptions going into this order of magnitude estimate are, we believe, conservative to moderate, so that \$1.90 probably represents the minimum price at which Alaskan natural gas could conceivably be delivered into the gas distribution system of the Lower 48 states. An informal survey of the opinions of energy specialists not affiliated with the applicants produced a range of cost estimates for transportation alone running from \$1.75 to \$2.50 for gas transported by an overland pipeline through Canada and \$2.00 to \$3.00 for a system that combined a pipeline across Alaska with LNG tankers to the west coast. The implications of these possible economic forecasts are enormous for the State. If the market price of the gas delivered in United States markets is nearly equivalent to the transportation cost alone, the State's royalty and share from severance taxes will be minimal. This is because both royalty and severance tax are based on a percentage of wellhead value, and wellhead value will roughly equal the difference between the market value of the gas and its transportation

April 2, 1975

cost. If gas is "deregulated", the equality will be precise. If wellhead price is set by the FPC (as is the current practice), the difference will be minimal since we cannot conceive of the FPC setting a wellhead price that would require the gas to be sold at a loss. If the gas can only be sold at a price of, say, \$2.50/Mcf, and its costs \$2.50/Mcf to get that gas to the market, there is simply going to be no wellhead value left upon which to assess royalties and taxes.

I am sure that our conclusions concerning possible lack of wellhead value must seem confusing, in light of the publicly expressed concerns of a national gas shortage, but if an evaluation is done of the nature of that "shortage", the problem becomes fairly clear. Gas has two basic markets in the United States, a "premium" market and a "nonpremium" market. The premium use of gas is for residential, commercial, and special industrial uses. While the price of premium gas is presently low because it is regulated by the FPC, there is no question but that on a free market the gas could be sold for high prices, perhaps in the neighborhood of \$3.00 per Mcf. The nonpremium use of gas is industrial and as boiler fuel. In this market, the maximum price which is paid for gas is about \$2.00 per Mcf. The significance of these two markets is that there are different competing products in each. In the premium market, gas competes with middle-distillate fuel oil. In the nonpremium market, gas competes with heavy fuel oil or coal.

The regulatory practices of the U. S. Government have created an unusual situation in regard to the prices at which

"premium" and "nonpremium" gas are sold. Interstate sales of gas are regulated by the FPC, while intrastate sales are not. Since interstate regulation has been on the basis of artificially low wellhead prices, much gas in the United States is used in the same state in which it is produced. There is a shortage in the "premium" market because companies cannot sell gas there advantageously--they can derive higher prices for nonpremium industrial use in the state of production.

If transportation costs for Alaskan gas are excessive, that gas is not going to be able to compete adequately with alternative sources of industrial fuel. The gas could compete on the premium market if conditions stay as they are today, since there is a real shortage in the premium market, and customers will buy the gas at even a high market price. The shortage in the premium market, however, is limited, and in and by itself could not justify the construction of a transportation system of the magnitude proposed. Moreover, if gas is deregulated or if end-use restrictions are placed on the use of natural gas, we can expect to see gas supplies quickly reallocated, with the result that the "shortage" in the premium market will rapidly dissipate. Companies will then direct their gas supplies to those markets where gas could be sold for higher rates than in nonpremium sales, leaving the nonpremium market to use heavy oil and coal. We have some doubts that Alaskan gas would be able to compete against gas from other sources in the premium

market if such a reallocation occurs. The primary competitor in the nonpremium market is oil and coal and the indications to the task force are that in the future Alaska gas will not be able to be delivered to the continental United States for prices competitive with those fuel options.

This issue is, of course, more complex than I have set out here, but suffice it to say that the task force has some concerns about the ability of either project to deliver gas competitively without government subsidy and with the result of a positive wellhead value. If the wellhead value is zero or very small, our royalties from the gas will be very slight and our severance taxes, which are based on wellhead value, will also be minimized. We find this to be a significant feature in our analysis since it has led us to conclude that if we are to derive any significant economic benefit from this developed Alaskan resource, it may well have to be through direct use of the gas ourselves.

That direct use can come in several ways. First, the gas may be made available in Alaska for the "premium" uses I previously discussed, though such a use will only involve a small percentage of the State's royalty share. For instance, the State's royalty share will be approximately 280 MMcf/d from production of 2.25 bcf/d. Even if we developed a natural gas market in the state equal to that which presently exists in Anchorage, it would only use approximately an additional 55.7 MMcf/d.

The real possible benefits for Alaska's gas seems to lie in the development of cheap sources of fuel for possible

industrial use in the state. The industrial use can occur either in the interior or along the coast, where the gas is delivered. The cost of the transportation of such gas in Alaska will be substantially less than the cost of delivering the gas to the continental United States, meaning that we will have a source of cheap fuel here for industries that seek to use it. There are several possibilities which need not be discussed in detail here. Petrochemicals is one form of industrial use which as been discussed previously, and other possibilities exist, such as the Klukwan Iron Ore project in Southeastern Alaska.

Unless we have a Trans-Alaska line, there is no satisfactory way to transport Alaskan gas for Alaskan use. We have considered the possibility of constructing pipelines from Prudhoe Bay to points in Alaska, assuming that a Trans-Canadian route were used to transport most of the gas to continental United States markets. Our conclusion has been that a transportation system just for Alaska's royalty share is not economically feasible. The cost of construction of such a system simply cannot be amortized without resulting in an extremely high cost of gas. Accordingly, it is clearly in the State's best interest in obtaining a maximum return from its North Slope gas to keep that gas in the state for use here, and since we can only do that with a Trans-Alaskan line, it is in the State's interest to support such a route.

To this point our analysis has been based on economic projections which indicate a minimal wellhead value for Alaskan

gas from Prudhoe Bay. It is, of course, entirely possible that our predictions are overly pessimistic and that in the end we will see a reasonable or even substantial wellhead value for the gas. If that is the case, the direct use of Alaska's royalty gas in the state will not be the only benefit derived from the resource, but it will still be a prime benefit. If the wellhead price turns out to be more than we have anticipated, the State will derive royalty and severance taxes based on the wellhead price from both the Arctic Gas and the El Paso proposed systems. The task force does not anticipate that, if the project turns out to be successful, there would be a substantial difference in wellhead price between the Arctic Gas and the El Paso proposals, though there is some indication that a higher wellhead price might be derived under the Arctic Gas proposal. That possibility derives from the fact that the Arctic Gas and El Paso proposals are about the same cost, but the Arctic Gas system would carry a somewhat greater volume of gas, reducing unit transportation cost. However, as we note below, other direct taxes imposed by the State of Alaska on a Trans-Alaskan project would more than compensate for the difference between the two proposals. Moreover, the benefits which would accrue from Alaskan use of Prudhoe Bay gas are sufficiently substantial in and by themselves to outweigh what we anticipate to be a small difference in possible wellhead value, and local use has the added benefit of providing real value to the gas in the event that the economic model we have described is proven correct.

A Trans-Alaska line will also result in revenue from a number of other sources than the gas itself. The property

tax on the Trans-Alaska project would, in the view of the Department of Revenue, produce \$68 million more per year than a route through Canada. Under our current gas severance tax law, the wellhead price with a Trans-Canada pipeline would have to be 58.21 cents higher than the Trans-Alaska project to offset in royalty and severance tax payments this substantial difference in property tax. As previously noted, we have concern about the existence of any significant wellhead value after deduction of transportation costs and, accordingly, this comparison is important in evaluating the projects. If the current proposed law was passed providing for a 10 percent severance tax on wellhead value, then the wellhead differential necessary to make the total revenues from both projects equal is 43.8 cents.

Adding to the direct revenue benefits of a Trans-Alaska line would be the corporate and personal income tax revenues that would accrue to the State. Although difficult to estimate, approximately \$42 million more tax revenue is expected during construction of the Trans-Alaska line.

These tax revenues are not, of course, with corresponding burden. Both projects will create substantial demands on State services. It is going to be crucial that we insure a source of revenue to meet those burdens. Property and income taxes provide such a source, even if the economic concerns expressed earlier are valid.

C. A Recommended State Position

The task force believes that the State in its own best interest should advocate the construction of a Trans-Alaskan

route for the transportation of North Slope gas. This support, however, should be given in full recognition of the fact that it is the State's interest which is being promoted rather than that of a particular company or consortium building a route. We do not recommend that the State necessarily support El Paso Alaska in the construction of a Trans-Alaskan route. To do that would be to wed ourselves to the El Paso proposal and it is not necessarily to our benefit to do so.

We believe it is in the State's interest to support the Trans-Alaskan route but to insist that if that route is approved by the FPC stipulations be contained to insure the promotion of Alaska's interest. First, we must work to insure that the pipeline is certified as a common carrier. Without a detailed discussion of this point, legal doctrines require that common carrier status be obtained in order to insure that Alaska's gas be available at the terminus of the pipeline for Alaskan use. There is some authority that suggests that once gas is commingled in an interstate pipeline it may not be removed without FPC consent. We should make it a prime point in our position to insure that that consent is obtained.

El Paso has not spent the time or the money to evaluate the environmental impact of its line in the same manner as has been forthcoming from Arctic Gas. Relying primarily on the pipeline corridor studies already completed, El Paso suggests that in essence the problem has already been resolved by those studies. That, unfortunately, is an oversimplification. First,

it is unclear whether or not the gas and oil pipelines can in all instances be laid side by side within the same corridor, and it is possible that in certain instances the pipeline will have to be laid outside the existing corridor, creating environmental problems which have not been studied by El Paso. The State should be in a position to press for a route which most efficiently establishes a system compatible with the surrounding environment. Very little review has been done by El Paso of the environmental problems created when its proposed pipeline route leaves the corridor and goes to the Alaskan coast. Again, the State should not feel itself wedded to any position or presentation made by El Paso but should be in a position in the FPC proceedings to vigorously criticize and, if necessary, advocate alternatives. Finally, the financial capacity of El Paso to construct the proposed project is limited. El Paso frankly concedes that if it is granted a certificate, it expects to be joined by other companies and what we may well see is a new consortium created, composed of many of the same parties that presently are in the Arctic Gas consortium. The State should do everything to insure that adequate financial backing is obtained for this project and that the project is, insofar as it can be made so, economically feasible. It is in the State's interests to do so because if the project ultimately becomes subsidized we can reasonably expect that the State will be forced to bear a portion of that subsidy, either through pre-emption of its taxing power or through imposition of other federal controls.

While we have recommended to you that the State support a Trans-Alaskan route, we believe that we must also advise you that there is a great deal of impetus and political pressure tending toward an adoption of the Canadian route by either the FPC or the Congress. Midwestern and eastern states see it in their interest to have North Slope gas come directly to their markets through a pipeline, and when the decision is made we can expect that this large segment of the United States populace will not be ignored. Moreover, there is evidence that the Arctic Gas proposal will use less of the gas itself in the transportation system, which will recommend the system to a national constituency. Finally, as we have noted earlier, the Arctic Gas proposal appears to be cheaper in terms of the construction necessary for the transportation of Alaskan gas. Faced with two marginal economic proposals, the FPC or the Congress may well opt for the one which at least is cheaper on its face, since that would reduce costs to consumers.

We mention these factors because we believe that, while Alaska should promote a Trans-Alaskan route, it should never lose sight of the fact that the Arctic Gas proposal has a substantial chance of ultimately prevailing. Accordingly we believe our position should be not only to promote the Trans-Alaskan route, but actively to criticize the Arctic Gas proposal in an effort to insure that if it is ultimately adopted it will be the best route possible for Alaska. For instance, the Arctic Gas proposal right now is for a line through the Arctic Wildlife

Range. It is the feeling of the task force that it is not in the State's interest to promote intrusion and development of that Range and that the State should attempt to insure that routes are developed for the Arctic Gas proposal (if it is accepted) which will avoid incursions into the Range. Arctic Gas has indicated that if they obtain the certificate which, in their view, will give them eminent domain powers for a pipeline across State lands, they will nonetheless negotiate with the State for such a route. We would expect to do so, but at the same time we should make every effort before the FPC or the Congress to insure that the basic corridor for the route is sound.

We will be meeting with our attorneys in Washington, D.C. over the weekend to discuss how we best can present Alaska's case before the FPC. On April 7 I will participate in the prehearing conference, at which point we will indicate to the hearing officer what basic alignment we will take in the proceeding. I will, of course, await your instruction before advising Washington counsel of that course of action.

AMG:as

Page 188

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APPENDIX 3

FEDERAL INFORMATION EXCHANGE SYSTEM

NATIONAL AND STATE SUMMARIES - BY FUNCTION

(Dollar amounts in thousands)

	<u>FY 1977 FUNDS</u>
<u>ALASKA</u>	<u>State Amount</u>
Department of Defense Military	\$ 505,249
Atomic Energy Defense Activities .....	.....
Defense Related Activities .....	.....
Foreign Economic and Financial Assistance	8
Conduct of Foreign Affairs .....	.....
Foreign Information and Exchange Activities .....	.....
General Science, Space and Technology	836
General Science and Basic Research	4,592
Natural Resources, Environment and Energy	1,382
Water Resources and Power	2,783
Conservation and Land Management	111,431
Recreational Resources	23,573
Pollution Control and Abatement	13,560
Energy	1,418
Other Natural Resources	28,804
Farm Income Stabilization	91
Agricultural Research and Services	2,201
Mortgage Credit and Thrift Insurance .....	.....
Postal Service	44,457
Other Advancement and Regulation of Commerce	3,147
Ground Transportation	178,151
Air Transportation	56,440
Water Transportation	52,760
Other Transportation	13
Community Development	15,322
Area and Regional Development	105,290
Disaster Relief and Insurance	12
Education, Training, Employment, Social Svcs.	7,839
Elementary, Secondary & Vocational Education	76,166
Higher Education	3,631
Research and General Education Aids	3,691
Training and Employment	64,167
Other Labor Services	67
Social Services	13,240
Health	9,933
Health Care Services	22,071
Health Research and Education	535
Prevention and Control of Health Problems	1,486
Health Planning and Construction	17,944
General Retirement and Disability Insurance	42,921
Federal Employee Retirement and Disability	24,166
Unemployment Insurance	10,773

State Amount

Public Assistance & Other Income Supplements	\$ 21,033
Income Security for Veterans	9,354
Veterans Education, Trng, and Rehabilitation	4,390
Hospital and Medical Care for Veterans	9,473
Veterans Housing .....	.....
Other Veterans Benefits and Services	863
Federal Law Enforcement and Prosecution	3,747
Federal Judicial Activities	58
Federal Correctional and Rehab. Activities	286
Law Enforcement Assistance	3,060
Executive Direction and Management .....	.....
Central Fiscal Operations	4,051
General Property and Records Management	11,115
Central Personnel Management	228
Other General Government	4,165
General Revenue Sharing	13,075
Other General Purpose Fiscal Assistance	8,907
Other Interest	905

TOTALS\$1,544,854

APPENDIX 4

FEDERAL INFORMATION EXCHANGE SYSTEM

STATE SUMMARY - AGENCY OPERATIONS

(Dollar amounts in thousands)

ALASKA

FY 1977 FUNDS

Department of Agriculture

Grant Funds

Child Care Food Program, FNS	\$ 145
Fed-State Marketing Improvement Prog., AMS	16
Food Stamp Bonus Coupons, FNS	5,186
National School Lunch Program-Cash, FNS	1,166
Nonfood Assistance to Schools, FNS	28
Other Food Stamp Program Costs, FNS	1,018
Payments to Agric. Exper. Sta. (Hatch), CSRS	570
School Breakfast Program, FNS	43
Special Milk Program, FNS	56
State Administrative Expenses, FNS	119
Summer Food Svc. Program for Children, FNS	14
Supp. Food - Women, Infants & Children, FNS	185
Agricultural Conservation Program, ASCS	71
Business and Industrial Dev. Grants, FMHA	35
Cooperation in Forest Tree Planting, FS	12
Cooperative Forest Fire Control, FS	408
Cooperative Forest Mngmt & Processing, FS	30
Cooperative Forestry Research, CSRS	135
Extension Service	658
Grants for Scientific Research, CSRS	8
Rural Community Fire Protection Grants	74
Rural Development Research, CSRS	7
Water and Waste Disposal Grants, FMHA	53

TOTAL - Grant Funds \$ 10,035

Other Federal Funds

Agricultural Product Grading, AMS	2
Agricural Research Service	513
Brush Disposal, FS	21
Commodity Inventory Operations, CCC	10
Consolidated Working Fund, ES	6
Const. & Operation of Recreation Fac., FS	6
Construction and Land Acquisition, FS	2,539
Cooperative Work, FS	646
Employment and Training Assistance	276
Energy Research and Development, EPA	30
Food Stamp Program, FNS	143
Forest Protection & Utilization	14,996
Forest Roads and Trails, FS	11,294
Forest Roads, FS	31,823

Other Federal Funds (cont'd)

FY 1977 FUNDS

Land Inventory and Monitoring, SCS	\$	1
Payments to States, Nat'l Forest Fund, FS		161
Plant & Animal Disease & Pest Cont, APHIS		230
Purchase of Commodities, AMS		11
River Basin Surveys & Investigations, SCS		266
River Basin Surveys & Investigations, SCS		44
Rural Telephone Bank Loans, REA		8,400
S & E, ASCS		81
S & E, Farmers Home Administration		241
S & E, Rural Electrification Adm.		97
Section 6 Purchases, FNS		16
Snow Survey & Water Supp. Forecasting, SCS		127
Soil and Water Conservation, SCS		248
Soil Survey, SCS		351
Statistical Reporting Service		56
Watershed Planning, SCS		5
Working Capital Fund, FS		312
Youth Conservation Corps, FS		366

TOTAL - Other Federal Funds \$ 73,317

AGENCY TOTAL - FEDERAL FUNDS \$ 83,351

Department of CommerceGrant Funds

Anadromus & Greak Lakes Fish. Cons., NMFS		397
Commercial Fisheries Research & Dev., NMFS		16
Econ. Dev. Grants to States, EDA		486
Econ. Dev. Grts. & LNS Pub Wks & Dev. Fac., EDA .		3,098
Econ. Dev. Local Public Works Program, EDA		55,426
Econ. Dev. Public Works Impact Projects, EDA		27
Econ. Dev. State & Local Econ. Dev Plnng, EDA ...		150
Econ. Dev. Support for Planning Org., EDA		439
Econ. Dev. Technical Assistance, EDA		57
SEA Grant Support, NOAA		710

TOTAL - Grant Funds \$ 60,806

Other Federal Funds

Administration of Pribilof Islands, NOAA		8
Business Asst., Services & Info., DIBA		54
Coastal Zone Management Program Dev., NOAA		920
Consolidated Working Fund, CENSUS		76
Consolidated Working Fund, NOAA		1,171
Current Statistical Programs, CENSUS		33
Econ. Dev. Technical Assistance, EDA		5
Oper. Of U.S. Merchant Marine Academy, MAR		
Operations, Research and Admin., NFPCA		18
Operations, Research and Facilities, NOAA		16,083

Other Federal Grants (cont'd)

FY 1977 FUNDS

Periodic Censuses	\$ 32
Promote & Develop Fishery Products, NOAA	29
River and Flood Forecasts, NWS	374
Special Censuses, Tabulations and Services	3
Weather Forecasts and Warnings, NWS	3,304
<u>TOTAL - Other Federal Funds</u>	\$ 22,109
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 82,914

Department of Defense

Grant Funds

Civil Defense-Personnel & Admin. Expenses	319
Civil Defense-System Maintenance Services	2
Civil Defense-State & Loc. Supporting Sys. Eq. ..	17
Military Construction, Army National Guard	1,156
<u>TOTAL - Grant Funds</u>	\$ 1,494

Other Federal Funds

Civil Functions Prime Contracts	19,557
Civilian Pay	73,678
Military Active Duty Pay	221,931
Military Prime Construction Contracts	24,018
Military Prime Rate Contracts	10,739
Military Prime Service Contracts	59,025
Military Prime Supply Contracts	29,263
Military Reserve and National Guard Pay	6,047
Military Retired Pay	23,113
Prime Contracts of Less than \$10,000	36,384
<u>TOTAL - Other Federal Funds</u>	\$ 503,755
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 505,249

Department of Health, Education and Welfare

Grant Funds

Adult Education Grants to States, OE	157
Alcohol Demonstration Programs, ADMHA	1,920
Alcohol Formula Grants, ADMHA	200
Allied Health Profess-Special Proj. Grts, HRA ...	17
Asst. to Refugees-Cambodia & Vietnam, OE	17
Asst. to States-State Equalization Plans, OE	32
Basic Ed. Opportunity Grant Program, OE	535
Bilingual Education, OE	1,144
Bilingual Vocational Training, OE	187

Grant Funds (cont'd)

FY 1977 FUNDS

Biomedical Communications Research, NIH	\$ 79
Biomedical Research Support, NIH	42
Career Education, OE	60
Child Dev. Child Abuse Prev. & Treatment, OS	175
Child Development - Head Start, OS	1,855
Child Support Enforcement, SRS	363
Child Welfare Services, SRS	154
Clinical & Physiological Sciences Res., NIH	414
College Library Resources, OE	42
Comm. Mental Hlth Ctrs-Comp Svc Supp, ADMHA	934
Comm. Mental Hlth Ctrs-Staff & Constr., ADMHA ...	69
Community Schools, OE	35
Comp. Public Hlth Svcs Formula Grants, HSA	364
Consolidated Working Fund Awards, OE	5
Crippled Childrens Services, HSA	379
Developmental Disabilities-Basic Supp., OS	170
Developmental Disabilities-Spec. Proj., OS	48
Disease Control-Project Grants, CDC	224
Drug Abuse Education Programs, ADMHA	90
Drug Abuse Prevention Formula Grts, ADMHA	237
Drug Abuse Training Programs, ADMHA	31
Ed. Deprived Child-Spec. Incentive Grts., OE	134
Educ. Deprived Children - Handicapped, OE	1,492
Educ. Deprived Children - In State Inst., OE	87
Educ. Deprived Children - LEA's, OE	3,423
Educ. Deprived Children - State Admin., OE	150
Education for Gifted and Talented, OE	20
Educational Opportunity Centers, OE	151
Educational Research and Development, NIE	691
Emergency School Aid Act, Grts to LEAs OE	163
Emergency School Aid Act, Spc. Prog. Proj., OE ..	49
Environmental Education, OE	122
Ethnic Heritage Studies Program, OE	15
Family Planning Projects, HSA	258
Follow Through, OE	136
Grts to States for State Student Incnt., OE	71
Handicapped Early Childhood Assistance, OE	80
Handicapped Preschool & School Programs, OE	411
Handicapped Teacher Education, OE	205
Health Facilities Construction Grants, HRA	5,000
Health Planning Health Systems Agencies, HRA	488
Health Professional Start-up Assistance, HRA	29
Health Services Devel. Project Grants, HSA	450
Higher Ed. Instructional Equipment. OE	5
Higher Ed Academic Fac. Constr. Interest, OE	66
Higher Ed Land Grant Colleges & Univ., OE	205
Higher Ed Strengthening Develop. Inst., OE	150
Higher Education Cooperative Education, OE	40
Hlth Manpower Educ Initiative Awards, HRA	125
Indian Education-Adult Indian Education, OE	70
Indian Education Grants to LEA's, OE	3,812
Indian Education Special Prog. & Proj., OE	247
Libraries and Learning Resources, OE	304
Library Services-Grants for Public Libraries, OE.	274

Grant Funds (cont'd)

FY 1977 FUNDS

Library Services-Interlibrary Co-op, OE	\$ 42
Library Training Grants, OE	40
Maternal and Child Health Services, HSA	427
Medical Assistance Program, SRS	12,891
Ment Hlth Hospital Improvement Grts, ADMHA	100
Mental Health Training Grants, ADMHA	112
Mining & Mineral Fuel Cons. Fellowships, OE	31
Natl Comm on Libraries & Info. Science, OE	14
Native American Programs, OS	1,513
Nursing Student Loans, HRA	23
Prog. for Aging Training, OS	30
Prog. for Aging Nutrition Program, OS	1,007
Prog. for Aging State Agency Activities, OS	804
Prog. for Aging Title III Model Proj, OS	10
Prog. for Aging Title V Senior Centers, OS	100
Pub. Asst. Maintenance Asst. (State Aid), SRS ...	8,189
Public Assistance Research, SRS	525
Public Assistance Social Services, SRS	408
Public Assistance State & Local Trng, SRS	60
Public Asst. Training Grants Title XX, SRS	639
Public Svc. Pro Ed. Instit Grts & Fellshp, OE ...	24
Rehab. Svcs & Facilities Basic Support, OS	2,000
Rehab. Svcs & Facilities Innov & Expan., OS	50
Rehab. Svcs & Facilities Special Projects, OS ...	15
Rehabilitation Training, OS	17
Right to Read, Elimination of Illiteracy, OE	309
Runaway Youth Act, OS	38
SAFA Maintenance and Operation, OE	45,025
Social Svc Low Inc. & Pub. Asst. Recip., SRS	5,455
Spec. Alcoholism Proj-Impl. Unif. Act, ADMHA	190
Special Svc. for Disadvantaged Students, OE	40
State Health Planning & Dev. Agencies, HRA	330
Supp Ed Ctrs & Svc. Guid. Council & Testing, OE ..	364
Supp Education Opportunity Grants, OE	279
Talent Search, OE	114
Teacher Corps Operations and Training, OE	323
Training Grants in Child Welfare, SRS	60
University Community Svc. Special Projects, OE ..	3
Upward Bound, OE	253
Vocational Ed. Basic Grants to States, OE	687
Vocational Ed. Curriculum Development, OE	47
Vocational Ed. Consumer & Homemaking, OE	64
Vocational Ed. Cooperative Education	162
Vocational Ed. Innovation, OE	188
Vocational Ed. Personnel Dev. for States, OE	41
Vocational Ed. Research, OE	19
Vocational Ed. Special Needs, OE	31
Vocational Ed. State Advisory Councils, OE	55
Vocational Ed. Work Study, OE	14
Win-Child Care & Supportive Services, SRS	261
Women's Educational Equity, OE	15

TOTAL - Grant Funds

\$ 112,344

Other Federal Funds

FY 1977 FUNDS

Federal Hospital Insurance Trust Fund, SSA	\$	51
Health Services, HSA		460
Health Statistics Train & Tech Assist., HRA		37
Higher Ed Vets Cost of Instruction Prog., OE		28
Higher Education Act Insured Loans, OE		15
Higher Education Work Study, OE		416
Indian Education, OE		5
Indian Health Facilities, HSA	17,776	
Indian Health Services		423
Indian Health Services		48
Limitation on Salaries & Expenses, SSA		766
Medicare Hospital Insurance, SSA		4,554
Medicare Supplementary Med. Insurance, SSA		1,765
Natl Diffusion Network-Dissemination, OE		45
National Direct Student Loans, OE		98
Natl Center for Educational Statistics, OE		7
Natl Direct Student Loan Cancellations, OE		1
Preventive Health Services, CDC		37
S & E, Office of Education		3
Social Security Disability Insurance, SSA		5,851
Social Security Retirement Insurance, SSA		21,638
Social Security Survivors Insurance, SSA		13,628
Special Benefits - Disabled Coal Miners		61
SS Pay States for Certif. Prov. Hi. SVC., SSA ...		133
SS Pay States for Determin. of Disabil., SSA		331
Supplemental Security Income, SSA		4,677
Voc. Rehab. Svc. SS Disabil. Beneficiaries, SSA .		152

TOTAL - Other Federal Funds \$ 73,006

AGENCY TOTAL - FEDERAL FUNDS \$ 185,351

Department of Housing and Urban Development

Grant Funds

Comm. Dev. Block Grts. Discretionary Gts., CPD ...		1,854
Comm. Dev. Block Grts. Entitlement Grts., CPD ...		3,527
Comprehensive Planning Assistance, CPD		355
Low Income Housing Asst. House Payments, HM		38

TOTAL - Grant Funds \$ 5,773

Other Federal Funds

S & E, Dept. of Housing & Urban Development

		1,421
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TOTAL - Other Federal Funds \$ 1,421

AGENCY TOTAL - FEDERAL FUNDS \$ 7,194

Department of the Interior

Grant Funds

FY 1977 FUNDS

Anadromous Fish Conservation, FWS	\$	154
Control Fires Inactive Coal Deposits, BM		70
Fish Restoration (DJ), FWS		1,043
Historic Preservation, NPS		172
Indian Education College & University, BIA		1,112
Indian Employment Assistance, BIA		965
Indian Housing Improvement, BIA		1,055
Indian Lands, Minerals & Mining, BIA		37
Land and Water Conservation Fund, BOR		7
Mineral Research & Resource Info & T/A, BM	1	217
Office of Water Research & Technology		110
Outdoor Recreation Aquist., Dev. & Plng, BOR		2,461
Payments in Lieu of Taxes, BLM		3,844
Wildlife Restoration, FWS		3,199

TOTAL - Grant Funds

\$ 14,446

Other Federal Funds

Anadromous Fish Conservation, FWS		4
Commemorative Activities Fund, ARBA		17
Consolidated Working Fund, APA		209
Consolidated Working Fund, BIA		2,118
Consolidated Working Fund, BOR		67
Consolidated Working Fund, Bureau of Mines		222
Consolidated Working Fund, FWS		685
Consolidated Working Fund, NPS		503
Construction & Anadromous Fish		39
Construction and Maintenance, BLM		3,517
Construction, Bureau of Indian Affairs		5,577
Construction, Corps of Engineers, Civil		147
Departmental Operations, O/W, Interior		308
Fish Restoration (DJ), FWS		9
Fishery Research Information, FWS		9
Forest Protection & Utilization, FS		113
Gen. Invest. Corps of Engineers, Civil		177
General Investigations, Alaska Power Admin.		688
General Investigations, APA		25
Geol, Min. & Watr Res. Invest. & Topo. Map		5,548
Helium Fund, Bureau of Mines		7
Hoonah Housing Project Revolving Fund, BIA		7
Indian Accounting Services for Tribes, BIA		30
Indian Action Team, BIA .....		.....
Indian Agricultural Extension, BIA		266
Indian Business Enterprise Dev., BIA		868
Indian Ed. Contracts with Tribal Orgs., BIA		5,046
Indian Education Adult, BIA		4,132
Indian Education Dormitory Operations, BIA		589
Indian Education Federal Schools, BIA		7,253
Indian Forests Management, Proj & Dev., BIA		282
Indian Housing Development, BIA		1,116

Other Federal Funds (cont'd)

FY 1977 FUNDS

Indian Invest. Tribal Tr. Fds & Individ. \$, BIA ...	\$
Indian Lands Range Management, BIA	14
Indian Lands Real Estate Appraisal, BIA	28
Indian Lands Real Estate Services, BIA	1,085
Indian Lands Soil & Moisture Conserv., BIA	9
Indian Law Enforcement Services, GIA	110
Indian Loan Guaranty & Insurance Fund, BIA	80
Indian Loans Claims Assistance, BIA	23
Indian Loans Economic Development, BIA	1,000
Indian Property Acquist. Tran. Fed. Bldg., BIA ..	10,785
Indian Rights Protection, BIA	232
Indian Roads Maintenance, BIA	81
Indian Roads Reserv. Roads & Bridges, BIA	2,159
Indian Social Services Child Welfare, BIA	742
Indian Social Services Counseling, BIA	1,180
Indian Social Services, General Asst., BIA	4,394
Indian Tribal Government Operations, BIA	812
Land & Water Conservation Fund, BOR	1,481
Management of Land & Resources	41,495
Migratory Bird Conservation Account	9
Mines and Minerals	1,095
National Register of Historic Places, NPS	1
National Wildlife Refuge Fund	32
Operation & Maintenance, Alaska Power Admin.	1,022
Operation of Indian Programs, BIA	9,902
Operation of the National Park System	3,242
Permanent Appropriations, BLM	707
Pesticide Appraisal & Monitoring, FWS	114
Planning and Construction, NPS	2,525
Planning, Dev. & Opn of Recreation Fac., NPS	516
Public Lands Development Roads & Trails	2
Recreation, Dev. & Opn. of Recreation Fac.	3
Resource Management, FWS	6,394
Road Construction, NPS	8
S & E, Bureau of Outdoor Recreation	143
S & E, Office of the Secretary, Interior	254
S & E, Office of the Solicitor, Interior	401
Sport Fish Management, FWS	33
Trust Funds, NPS	97
Wildlife Research Information, FWS	577
Wildlife Restoration, FWS	41
Wildlife Technical Assistance, FWS	4
 <u>TOTAL - Other Federal Funds</u>	 \$ 132,415
 <u>AGENCY TOTAL - FEDERAL FUNDS</u>	 \$ 146,861

Department of Justice

Grant Funds

FY 1977 FUNDS

Comprehensive Planning Grants, LEAA	\$ 382
Discretionary Grants, LEAA	436
Impr. & Strengthening Law E. & C.J., LEAA	514
JDP Allocation to States, LEAA	200
Discretionary Grants, LEAA	1,156
Research & Development Project Grts., LEAA	300
Technical Assistance, LEAA	49

TOTAL - Grant Funds \$ 3,038

Other Federal Funds

Fees and Expenses of Witnesses	33
LEEP Student Financial Aid, LEAA	22
Management Operations, LEAA .....	.....
S & E, Drug Enforcement Administration	179
S & E, Immigration & Naturalization Service	826
S & E, United States Attorneys & Marshals	797
Support of United States Prisoners	286

TOTAL - Other Federal Funds \$ 2,143

AGENCY TOTAL - FEDERAL FUNDS \$ 5,180

Department of Labor

Grant Funds

Apprenticeship Outreach, ETA	151
Comprehensive Empl. & Training Programs, ETA	22,487
Employment Service (Administration), ETA	5,996
Food Stamps (CWF), ETA	593
Indian Employment & Training Program, ETA	22,833
Job Corps, ETA	36
Operational Grants, OSHA	856
Senior Community Svc. Employment Program, ETA ...	740
Statistical Operational Grants, OSHA	27
Unemployment Insurance, ETA	9,103
Work Incentive Program, ETA	695
Youth Employment & Training Programs, ETA	31

TOTAL - Grant Funds \$ 63,548

Other Federal Funds

Fed. Unemployment Benefits & Allowances, ETA	10,670
Federal Employees Compensation, ESA	3,247
S & E, Occupational Safety & Health Admin.	341

TOTAL - Other Federal Funds \$ 14,259

AGENCY TOTAL - FEDERAL FUNDS \$ 77,807

Department of Transportation

Grant Funds

FY 1977 FUNDS

Grants in Aid Natural Gas Pipeline Safety	\$ 13
State and Community Highway Safety	550
Highway Planning and Construction, FHWA	136,461
Highway Studies, FHWA	8
Urban Mass Transportation Fund	2,201

TOTAL - Grant Funds \$ 139,223

Other Federal Funds

Alaska Railroad Revolving Fund, FRA	38,880
Coast Guard Marine, Harbor & Shore Svc.	52,760
Facilities & Equip., A/A Trust Fund, FAA	6,829
Operations, FAA	47,334
Traffic and Highway Safety, NHTSA	7

TOTAL - Other Federal Funds \$ 145,811

AGENCY TOTAL - FEDERAL FUNDS \$ 285,044

Treasury Department

Grant Funds

Anti-Recession Asst. to State Governments	1,777
Anti-Recession Fund Administration	3,126
Fiscal Assistance to State Governments	4,417
State & Local Government Fiscal Assistance	8,657

TOTAL - Grant Funds \$ 17,977

Other Federal Funds

Accounts, Collection & Taxpayer Service	1,410
Administering the Public Debt	22
Claims, Judgments & Relief Acts	4,075
Compliance, Internal Revenue Service	2,518
Refunding Internal Revenue Collections, INT	905
S & E, Bureau Alcohol, Tobacco & Firearms	93
S & E, Bureau of Government Financial Op.	100
S & E, U.S. Customs Service	1,588
S & E, U.S. Secret Service	70

TOTAL - Other Federal Funds \$ 10,780

AGENCY TOTAL - FEDERAL FUNDS \$ 28,759

ACTION

Grant Funds

FY 1977 FUNDS

ACTION Cooperative Volunteer Program	\$	50
Foster Grandparents Program		87
Mini-Grant Program		38
Retired Senior Volunteer Program		27
University Year for Action		26
Vista Cost Sharing Volunteers		53
Volunteers in Service to America		496
<u>TOTAL - Grant Funds</u>	\$	777

Other Federal Funds

Operating Expenses, Domestic Prog., Action		84
Peace Corps and Other		8
<u>TOTAL - Other Federal Funds</u>	\$	92
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$	869

Civil Aeronautics Board

Other Federal Funds

Payments to Air Carriers, CAB		2,231
S & E, Civil Aeronautics Board		45
<u>TOTAL - Other Federal Funds</u>	\$	2,277
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$	2,277

Civil Service Commission

Grant Funds

Intergovernmental Personnel Assistance		73
<u>TOTAL - Grant Funds</u>	\$	73

Other Federal Funds

Civil Service Retirement & Disability Fund		20,919
Revolving Fund. Civil Service Commission		6
S & E, Civil Service Commission		222
<u>TOTAL - Other Federal Funds</u>	\$	21,146
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$	21,219

Community Services Administration

Grant Funds

FY 1977 FUNDS

Community Action	\$ 1,183
Community Economic Development	3,000
Community Food and Nutrition	168
Emergency Energy Conservation Services	2,611
Older Persons Opportunities & Services	107
State Economic Opportunity Offices	284
Summer Youth Recreation	38

TOTAL - Grant Funds \$ 7,390

Other Federal Funds

Community Services Program .....	.....
Emergency Energy Conservation Services	13

TOTAL - Other Federal Funds \$ 13

AGENCY TOTAL - FEDERAL FUNDS \$ 7,402

Energy Research & Development Administration

Grant Funds

Solar Energy Development	194
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TOTAL - Grant Funds \$ 194

Other Federal Funds

Basic Energy Sciences	121
Biomedical and Environmental Research	578
Buildings and Industry Conservation	280
Fuel Cycle Research and Development	6
General System Studies and Technology	58

TOTAL - Other Federal Funds \$ 1,043

AGENCY TOTAL - FEDERAL FUNDS \$ 1,237

Environmental Protection Agency

Grant Funds

Abatement and Control, EPA	649
Const. Grts. for Wastewater Treat Works, WHM	12,438
Public Water System Spv. State Prog. Gr, WHM	40
Research and Development, EPA	313

<u>Grant Funds (cont'd)</u>	<u>FY 1977 FUNDS</u>
Water Pollution Control - RD & D, RD	\$ 120
<u>TOTAL - Grant Funds</u>	\$ 13,560
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 13,560
 <u>Equal Employment Opportunity Commission</u>	
<u>Other Federal Funds</u>	
Employment Disc. Spec. Proj. Contracts	52
<u>TOTAL - Other Federal Funds</u>	\$ 52
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 52
 <u>Federal Communications Commission</u>	
<u>Other Federal Funds</u>	
Personal Services	302
<u>TOTAL - Other Federal Funds</u>	\$ 302
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 302
 <u>Federal Energy Administration</u>	
<u>Other Federal Funds</u>	
S & E, Federal Energy Administration	139
<u>TOTAL - Other Federal Funds</u>	\$ 139
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 139
 <u>General Services Administration</u>	
<u>Other Federal Funds</u>	
Exp. U.S. Court Fac., Furniture, & Furnishings ..	58
Federal Buildings Fund	5,550
Federal Telecommunications Fund	3,432
General Supply Fund	1,447
Operating Expenses, Federal Supply Service	225
Working Capital Fund, GSA	461

<u>Other Federal Funds (cont'd)</u>	<u>FY 1977 FUNDS</u>
<u>TOTAL - Other Federal Funds</u>	\$ 11,172
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 11,172

National Aeronautics and Space Administration

Other Federal Funds

Research and Development, NASA	836
<u>TOTAL - Other Federal Funds</u>	\$ 836
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 836

National Foundation on Arts and Humanities

Grant Funds

Architecture and Environmental Arts	65
Dance Programs	46
Education Programs	99
Elementary & Secondary Education Program	115
Expansion Arts Program	13
Federal-State Partnership Programs	290
Interpretive Museum Exhibitions & Programs	77
Literature Programs	2
Museum Programs	45
National Board of Consultants	6
Special Projects	43
State Based Programs	945
Theatre Programs	25
Visual Arts Program	4
<u>TOTAL - Grant Funds</u>	\$ 1,773
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 1,773

National Science Foundation

Grant Funds

National Science Foundation Grants	4,472
<u>TOTAL - Grant Funds</u>	\$ 4,472
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 4,472

Postal Service

<u>Other Federal Funds</u>	<u>FY 1977 FUNDS</u>
Payment to the Postal Service Fund	\$ 44,457
<u>TOTAL - Other Federal Funds</u>	\$ 44,457
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 44,457

Railroad Retirement Board

Other Federal Funds

Railroad Retirement Account	360
Railroad Unemployment Insurance Account	102
<u>TOTAL - Other Federal Funds</u>	\$ 463
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 463

Small Business Administration

Other Federal Funds

Economic Opportunity Loans	733
Physical Disaster Loans	12
S & E, Small Business Administration	993
Small Business Loans	892
<u>TOTAL - Other Federal Funds</u>	\$ 2,630
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 2,630

Veterans Administration

Other Federal Funds

Compensation to Dependents, Vets S/C Death	50
Dependents Indemnity Compensation (DIC)	610
General Operating Expenses	863
Medical Admin. & Misc. Operating Expenses	4
Sons, Daughters, Wives & Widows Education	95
Veterans Death Pension	570
Veterans Disability Compensation	5,967
Veterans Disability Pension	581
Veterans Hospitalization	9,469
Veterans Insurance and Indemnities	1,354
Veterans Readjustment Training	4,256
Veterans Burial Awards & Other Misc. Benef. Pmt..	223

<u>Other Federal Funds (cont'd)</u>	<u>FY 1977 FUNDS</u>
Vets Rehab. Training for Disabled Vets	\$ 40
<u>TOTAL - Other Federal Funds</u>	\$ 24,080
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 24,080
 <u>Water Resources Council</u>	
<u>Grant Funds</u>	
Water Resources Planning	90
<u>TOTAL - Grant Funds</u>	\$ 90
<u>AGENCY TOTAL - FEDERAL FUNDS</u>	\$ 90
<u>Federal Mediation and Conciliation Service</u>	\$ 67
<u>Interstate Commerce Commission</u>	\$ 47
<u>Tennessee Valley Authority</u>	.....
<u>STATE TOTAL - GRANT FUNDS</u>	\$ 457,022
<u>STATE TOTAL - OTHER FEDERAL FUNDS</u>	\$1,087,832
<u>STATE TOTAL - FEDERAL FUNDS</u>	\$1,544,854