

MINUTE ITEM

This Calendar Item No. 21
was approved as Minute Item
No. 21 by the State Lands
Commission by a vote of 3
to 0 at its 6/30/77
meeting.

MINUTE ITEM

6/30/77
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21. LNG IMPORTATION-TRANSPORTATION - W 30003.

The discussion on natural gas transportation projects which would impact on the State of California began with an opening statement by Mr. William F. Northrop, Executive Officer (attached as Exhibit "A" and by reference made a part hereof).

Presentations were made by the following representatives from the three transportation systems explaining their projects.

Mr. George Rice from the law firm of Latham and Watkins, representing the Alcan Transportation project;

Mr. Michael C. Holland, Assistant Vice President, El Paso Alaska Company, representing the El Paso Alaska transportation project;

Messrs. Daniel E. Gibson, General Counsel, Pacific Gas Transmission Company; and Harry L. Lepape, Vice President, Southern California Gas Company; both gentlemen representing the Arctic transportation project. Mr. Lepape submitted his written statement for the record, on file in the office of the State Lands Commission.

Mr. Roger C. Thompson, Special Representative and Senior Vice President-Gas Supply-representing Pacific Gas and Electric Company, appeared, but did not make a statement.

For a complete text of the above presentations, refer to the transcript of the June 30, 1977 State Lands Commission meeting, on file in the office of the State Lands Commission.

Various questions were posed by the Commissioners concerning these systems.

At the conclusion of the testimony, and after a number of resolutions were moved, seconded and then rescinded by the Commission, the following resolutions were passed by a vote of 3-0:

RESOLUTION

WHEREAS, California is vitally concerned with the importation of new supplies of natural gas, including the rich resources which will soon be available from Prudhoe Bay in Alaska, and

WHEREAS, the President and Congress will soon select one of three competing systems for delivery of Alaskan gas to the lower 48 states, a subject which will directly affect the economic well-being of all Californians, and

WHEREAS, recommendations made to the President and Congress by the State of California on this subject must be considered with the greatest care as matters of critically important public policy, and

WHEREAS, a divided Federal Power Commission has recommended the selection of either of two trans-Canadian pipelines, neither of which is certain to make use of the concept of a "western leg" to bring Alaskan gas directly to the western United States, now therefore, be it

RESOLVED that this Commission urges the President and Congress to guarantee the construction of a western leg to bring Alaskan gas directly to the western United States in the event of the approval of an overland route.

This Resolution is duly adopted this 30th day of June, 1977, and respectfully submitted by:

KENNETH TORY, Chairman
California State Lands Commission

MERVYN M. DYMALLY, Commissioner
California State Lands Commission

ROY M. BELL, Commissioner
California State Lands Commission

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RESOLVED that this Commission urges the President and Congress to seriously consider the El Paso project as one realistic alternative to transport Alaskan North Slope Gas to the lower 48 states.

This Resolution is duly adopted this 30th day of June, 1977, and respectfully submitted by:

KENNETH CORY, Chairman
California State Lands Commission

MERVYN M. DYMALLY, Commissioner
California State Lands Commission

ROY M. BELL, Commissioner
California State Lands Commission

Attachment: Exhibit "A"

EXHIBIT "A"

WILLIAM F. NORTHRUP STATEMENT

There has been much discussion of late as to the future deliveries of natural gas to California and of the projects which will deliver such supplies. California has been a gas importing state since 1947 and last year consumed 1.637 trillion cubic feet. This was 4.485 billion cubic feet per day. Only 11 percent was supplied by its own resources. The State's traditional sources of gas have been Canada (PG&E) and the Southwestern United States (PG&E and Southern California Gas Company - SOCAL). These supplies have been delivered through extensive pipeline networks. However, traditional sources and methods of transportation can no longer meet California's demands.

There is some disagreement between gas utilities and public agencies as to the timing of the anticipated shortfall between available supplies and actual demand. This debate revolves around the question of "when" not "if". According to figures furnished to the California Public Utilities Commission (CPUC), Southern California will experience a shortfall of approximately 1.2 billion cubic feet per day in 1982. This amounts to approximately 25 percent of California's daily use of gas in 1976. While the CPUC feels that this shortfall can be mitigated or postponed until 1985-86 if specific measures are taken (sharing between SOCAL and PG&E, etc.), the likelihood of all conditions being met is slim. Others maintain that additional supplies of gas can be supplied through traditional systems by drilling deeper into existing

fields in Texas and Oklahoma, but again there is not enough certainty of supply to gamble with the time remaining.

Industry predicts that without additional supplies curtailments could begin for priority 1 customers (residential) as early as 1982 on the SOCAL system and 1983-85 on the PG&E system. Priorities 2-5 would receive no gas at all after these dates. According to industry estimates, approximately 700,000 jobs would be lost in industries which depend on natural gas and have no capacity to convert to alternate fuels. The bottom line is this -- California badly needs new supplies of natural gas.

Future supplies of natural gas for California may come from a variety of sources, among them: (1) Alaska, both North and South Slope areas; and (2) Indonesia. The major systems proposed to transport Alaskan North Slope natural gas, which is estimated at 22.5-24 trillion cubic feet in proven reserves, are as follows:

1. The Alaskan Arctic Gas Pipeline Company;
2. The El Paso Alaska Company; and
3. The Alcan Pipeline Company.

The material before you contains a brief description of each of the projects and pertinent maps. Briefly, the Arctic and Alcan pipelines follow different routes from Alaska through Canada to the Midwest. Each proposes a western leg to provide a portion of North Slope gas to the West Coast. In drastic contrast, the El Paso Alaska Company proposes to transport such gas in the form of liquefied natural gas (LNG). It would come from a liquefaction facility to be located in Southern Alaska to a regasification facility at Point Conception in Santa Barbara County. From Point Conception, the gas

would be placed in the El Paso Natural Gas Company system. Ultimate distribution would be determined by the Federal Power Commission (FPC).

Two other projects now before the FPC would bring additional LNG to California for in-state use. The project proposed by the Pacific Alaska LNG Company would bring LNG from the South Slope of Alaska to terminal facilities in Los Angeles Harbor. The other, proposed by Pacific Indonesia LNG Company, would bring LNG from Indonesia to terminal facilities at Oxnard, California. It should be noted that staff of the FPC has recommended that all LNG terminals proposed for the West Coast be consolidated at Oxnard.

Beyond considerations of a project's ability to deliver gas are the factors of cost and timing. These factors will clearly affect the feasibility of such deliveries. The following information on these projects has been gathered from various sources.

	<u>VOLUME/DAY</u>	<u>CAPITAL COST</u>	<u>COST OF GAS</u>	<u>PROJ. DATE</u>
Arctic	2.25 billion ft. ³ (initial)	\$8.5 billion	Approx. \$2.41 MMBTU	1982-83
	4.50 billion ft. ³ (potential)			
El Paso	2.40 billion ft. ³ (initial)	\$6.5 billion	\$2.99-\$5.69 MMBTU (depending on final wellhead price)	1982-83
	3.40 billion ft. ³ (subsequent)	\$7.8 billion		
Alaska	2.40 billion ft. ³	\$7.0 billion	Approx. \$2.91 MMBTU	1981
Pacific Alaska	200 million ft. ³ (Phase I)	\$1.1-\$1.3 billion	\$3.36 MMBTU (Phase I)	1979
	400 million ft. ³ (Phase II)	(Phase I & II)	\$2.43 MMBTU (Phase II)	1980
Pacific Indonesia	500 million ft. ³	\$216 million	\$3.73 MMBTU (1979)	1980-81
			\$3.33 MMBTU (1981)	

These figures are subject to continual change and the source of debate between the industry and public agencies. One conclusion is obvious -- the era of "cheap" and plentiful natural gas is over.

In any event, California's options in the decision-making process are severely limited by the Federal Government. Specifically, the FPC is charged with regulating the interstate pricing, transportation, allocation, etc., of natural gas. Each of these gas projects is awaiting final action by the Federal Government.

The FPC has taken action, pursuant to the Alaskan Natural Gas Transportation Act of 1976 (PL 94-586), on those projects associated with Alaskan North Slope gas -- Arctic, El Paso and Alcan. On February 1, 1977, the FPC administrative law judge recommended FPC approval of the Arctic Gas Project with a "western leg" to supply the West Coast. In doing so, the judge rejected the proposals of El Paso Alaska (LNG) and the Alcan Pipeline Company.

On May 1, 1977, the FPC took its formal action. This resulted in a "tie vote" (2-2) between the Arctic Gas Project and that of the Alcan Pipeline Company. In this decision, the FPC "deferred" any decision on a "western leg" for either of these projects. They stated that it was premature to determine sizing on a western leg for at least two years. Thus, while the western leg was not rejected outright, it was effectively placed in limbo.

The FPC action, therefore, did not result in a clear recommendation upon which the President can base his recommendation to Congress on September 1, 1977. At his discretion, the President may postpone his decision to December 1. Once the President's recommendation has been made, Congress has 60 days to approve or reject his recommendation. If the President's recommendation is rejected, he must submit a new recommendation. This must come within 30 days of the end of the Congressional review period. Presumably, the process could repeat itself until Congress accepts a route or project.

Regardless of any Federal action, the ultimate decision on the Arctic Gas or Alcan project will be made by the Canadian government. A preliminary Canadian recommendation regarding the Arctic Gas project has, in fact, been made recently. It was made by Commissioner Justice Berger, who is responsible for native claims and environmental impacts of the Mackenzie pipeline. At present, a major feature of the Arctic Gas project is the transport of Canadian Mackenzie Delta gas into the Canadian system. Justice Berger's decision recommended against the development of the Mackenzie Delta gas at this time. He also recommended against the approval of the Arctic Gas pipeline because of unsettled native claims and significant environmental issues. While no reference was made to the Alcan Pipeline project, it is unlikely that it would encounter similar problems because it would follow the right-of-way of the Alcan Highway.

In contrast to the Alaskan North Slope gas projects, the Pacific Alaska and Pacific Indonesia LNG proposals are still within the FPC review process. These may also be influenced by external factors. For example, the original contract for the Indonesian gas was entered into in 1973. It contained a requirement that all necessary regulatory approvals be obtained by January 1976. An extension of this provision was obtained, but it expired on April 6, 1977. While negotiations are currently ongoing for a further extension, there are some fears because Japan is also competing for additional Indonesian gas. The contract for gas from South Alaska has a similar condition with an expiration date of July 1, 1976. Again, the utility companies are attempting to renegotiate this contract also.

It is increasingly apparent that because of the larger volumes available directly, the status of the contract negotiations and inclinations of the Federal Government regarding Alaskan North Slope gas, the State should focus on those projects which would bring LNG to California from Indonesia and South Alaska.

At the State level, there seems to be a general agreement that an LNG facility will be required in the near future. However, there exists marked preferences and opinions. There is also increasing discussion and support for an offshore site for an LNG terminal and regasification facility. This concept is one step beyond the requirements of existing law. At present, the California Coastal Act states that until public health and safety questions are resolved, there shall be only one LNG facility and it is to be located at a site remote from population concentrations. Under such a provision, the proposed facility in Los Angeles Harbor would appear to be ruled out and the proposed facility at Oxnard would be subject to debate.

An offshore facility is gaining support in the Legislature and among other interest factions, but the concept is unacceptable to the gas utilities, at least as it applies to an initial facility. Time is the major determining factor in any decision between an offshore and remote onshore facility. The utilities maintain that the projected gas shortfalls will occur before an offshore facility can be operational. Thus, the disagreements over the timing of such shortfalls are critical to any siting decisions at the State level.

In this regard, the Legislature is presently considering two major bills, Assembly Bill 220 (Goggin) and Senate Bill 1081 (Alquist). Each would institute a formal procedure for the siting,

permitting, etc., of any LNG facility. Under the present provisions of these measures, the State Lands Commission would have no decision-making role in the siting of an LNG facility. Further, the Commission's historical role as guardian and manager of the State's tide and submerged lands could be restricted by the precedents established in either piece of legislation. Staff will continue to suggest amendments which will recognize the Commission's proper role. There are some indications that the authors may accept our suggested amendments when the Legislature returns from recess.

We have asked each of the proposed transportation modes to send representatives to the meeting today to briefly discuss their form of transportation with the Commission. We also have received indications from other concerned individuals and organizations who have indicated that they, too, may like to discuss the problem.