

UPDATE '78

News about the Gasline



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This is the third in a series of progress reports on the Alaska Highway Pipeline designed to keep you informed of our activities as they relate to Alaska and its citizens.

STATE FINANCIAL PARTICIPATION:

In recognition of a unique opportunity to play a major role in encouraging optimum resource development, the Alaska Legislature during its 1978 session enacted a resolution establishing a joint inter-im committee to look into methods of state participation in financing the Alaska Highway Pipeline Project. This committee is to review and consider possible direct investment by the State in the pipeline project, up to a maximum of \$500 million.

BENEFITS TO ALASKA:

Alaska, by virtue of its royalty

ownership position, is one of the largest oil and gas owners in the nation, and the amount suggested for equity investment in the gasline is dwarfed by the future income the State will derive from the sale of its gas and from other revenues of the project. During the life of the Alaska Highway Gas Pipeline, the State of Alaska will receive an average income of approximately \$600 million per year in royalties and taxes. That's about \$1,500 per year for every man, woman and child in the State. This represents more than 15 percent of the current per capita personal income in Alaska, and it is twice current state and local per capita taxes.

However, no revenues will accrue if the gasline is not built. Only one project, the Alaska Highway Pipeline, as sponsored by Northwest Alaskan and five other U.S. gas companies, has Presidential and Congressional approval. It follows logically, therefore, that if we do not build this pipeline, Prudhoe Bay gas will not be used to heat homes in the lower 48.

Northwest Alaskan continues to encourage the State of Alaska to study the feasibility of this equity investment, focusing on the positive impact that participation will have on

moving the project forward, thus accelerating the various economic benefits to the State.

FINANCING AUTHORITY:

As another measure of its good faith in the project, the Legislature agreed to set up an Alaska Gas Pipeline Financing Authority to issue up to \$1 billion in tax-exempt bonds. The purpose of this Authority would be to assist in the financing of the Alaskan segment of the Alaska Highway Pipeline project. No State funds will be involved because the bonds will be paid off by the operating revenues generated by the gasline and not by the credit or money of the State of Alaska. The bonds will be sold to such institutions as large casualty insurance companies, and the funds will in turn be invested in the gasline. For providing this service, the State will receive annually a fee of 1 percent of the value of the bonds, or \$1.25 million per year.

A federal tax exemption is required for the Authority to sell these revenue bonds. In order for the bonds to have tax-exempt status, Congress must approve an amendment to Section 103 of the Internal Revenue Code. In the closing days of the 95th Congress, Senator Mike Gravel sponsored

draft legislation granting tax-exempt status to the revenue bonds to be sold by the Financing Authority. Efforts to pass this legislation were unsuccessful, largely due to the enormous press of pending business in the last days of the congressional session, and the legislation was set aside until the next Congress convenes. Indications are that the measure will be considered by Congress early in the coming session.

Alaska and its people have more to gain from the timely completion of the pipeline than any single entity involved. We remain committed to aiding the State in developing an effective mechanism which will provide an attractive return on its investment, and we reaffirm that participation by the State will materially assist in preventing a delay in project completion.


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