



THE ALLIANCE

...for responsible development of Alaska's Oil, Gas & Mineral Resources
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- Position on the Alaska Gasline Inducement Act - Senate Bill 104 / House Bill 177

First and foremost, the Alliance wants a gas project ... sooner rather than later, and with the greatest long-term benefits for the State of Alaska, Alaskan workers, Alaskan businesses and all Alaskans. North Slope gas commercialization holds the key to Alaska's future.

We understand the importance and urgency of transforming our gas potential into a gas project. The opportunity to market our gas won't last indefinitely, and there's a very real risk of losing it altogether if we don't act quickly. Project costs are escalating, prospective utility customers are making long-term commitments for other fuel sources (such as coal), the threat of being displaced from key markets by LNG imports is growing, and North Slope oil production continues to decline. Given the long lead time for a gas project and gas revenues flowing into state coffers, this puts Alaska's fiscal future in further peril.

The Alliance commends the governor and her team for developing a plan quickly after taking office and concur with the general principles set out in the legislation. We also believe the Alaska Gasline Inducement Act will fail in its objective of achieving a gas project unless changes are made prior to passage:

Bid requirements set out in the bill are too prescriptive and should be replaced with broad objectives (e.g., ensuring pipeline access for explorers and ensuring access to in-state supplies). As currently stated, the bid requirements will limit competition in the bidding process, as well as creativity in satisfying the state's needs. There may be more than one way to reach mutually beneficial outcomes, and the prescriptive nature of the current bill guarantees they'll never be explored. It also likely will preclude some prospective applicants from participating.

The bill places too much emphasis on mitigating the short-term financial risks incurred by the pipeline builder and too little to address the much longer-term and greater risks of gas shippers. As more than one pipeline company has testified during the legislative process, "no producers, no project." The bill offers shippers little more than a non-binding "trust me" commitment for fiscal stability lasting a fraction of the project life, and does nothing to fix gas severance tax rates that even the administration admits are too high (22.5%).

The \$500 million incentive is unnecessary and imprudent. The legislature's decision to make it a bid variable rather than a bid requirement was a step in the right direction. With one exception, companies that have testified have said the handout isn't needed, and we don't believe it's the best use of state funds, either. We're concerned about any provision that turns pretenders into contenders for a state license, and we're skeptical about placing Alaska's future into the hands of an entity that requires a \$500 million contribution in order to pursue a \$30 billion project. Applicants that need to be "bought" with the \$500 million may not be worth acquiring.

The process promotes a monopoly, and the state has an abysmal record of picking “winners.” Alpetco. Healy clean coal. Delta barley. Alaska Seafood International. Alaska’s history is strewn with the remnants of projects for which the state picked “winners,” and the gas line legislation is based on the same dubious premise. The state should be doing whatever it can to promote any viable gas project, but the Alaska Gasline Inducement Act virtually guarantees that the licensee picked by a pair of commissioners will be the only game in town. Provisions like treble damages for granting streamlined permitting, state-funded training and the services of a pipeline coordinator to a competing project need to be amended to eliminate “exclusivity.”

Existing shippers should not be forced to subsidize expansion shippers by sharing the cost of pipeline expansions. The bill attempts to pre-empt the authority of the Federal Energy Regulatory Commission (FERC) to administer access, expansion and tariff issues by dictating rolled-in tariff rates for expansions that would increase rates as much as 15%. Let FERC do its job. If the state believes an expansion is in Alaska’s best interest and is eager to contribute public funds to the project without securing equity, it could underwrite pipeline expansions in order to maintain tariff rates. There may be instances - for example, gas production from federal OCS acreage - when rolled-in rates aren’t in the state’s interest, either.

The bill needs clear and objective criteria for evaluating applications. This is fundamental to having an “open and transparent process.” Recent legislative amendments dictating that proposals be judged on the basis of net present value to the state and the applicant’s ability to deliver on its promises enhanced the bill, and further specificity is needed.

Safeguards against construction cost overruns for the state and shippers are inadequate. Both the state and shippers need to be involved in and have oversight of a project execution plan that provides the greatest netbacks at the wellhead. A third-party pipeline builder with no production interests will have no incentive to reduce costs and no ability to “guarantee” the tariff in advance.

The Alaska Gasline Inducement Act may be our last and best chance to make a North Slope gas project a reality, but only if it’s fixed before it’s passed. In order to succeed, the bill must acknowledge the interests of Alaskans, of the developer and transporter and of North Slope producers and shippers.

April 19, 2007