

From the Alaska State Chamber of Commerce

Alaska Gas Pipeline

By Carl Portman, Resource Development Council
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Alaska's 35 trillion cubic feet of natural gas, volatile gas prices, recently passed federal legislative incentives and a new phase of intense, closed-door negotiations between industry and the State are combining to set the framework needed to bring the long hoped for gas pipeline into reality within 10 years.

"The Alaska natural gas pipeline will provide 50 years or more of secure supplies that will provide all Americans with a degree of stability they could never achieve through a complete dependence on imported gas," Governor Frank Murkowski said in a recent speech before a national energy conference in Houston.

In his address, Murkowski credited Alaska's Congressional Delegation for winning passage of critical federal gas line support, including loan guarantees, tax credits, expedited judicial review and other provisions. He also said his administration is working on innovative approaches to encourage pipeline construction, such as taking an equity position and assuming shippers' risk for its share of the gas reserves.

A pipeline carrying North Slope gas to Lower 48 markets would provide thousands of job opportunities for Alaskans, generate millions of dollars in annual revenues to the State and provide the nation with a stable supply of new gas.

The administration is negotiating with the producers group – ConocoPhillips, ExxonMobil and BP – and also with TransCanada. The producers and TransCanada are negotiating separately with the State on fiscal terms of a pipeline under the Stranded Gas Development Act. The State is also talking with MidAmerican Energy Holdings Company, the Alaska Natural Gas Development Authority, the Alaska Gasline Port Authority, Enbridge and Calpine outside the framework of the Stranded Gas Development Act.

The State hopes a final contract will emerge from the current negotiations in time to present it to the Legislature for its approval this session.

The Alaska project is mammoth. At \$15 billion to \$20 billion, it is three times the size of the next largest in the world. The project's gigantic size is a risk by itself.

Uncertainty surrounding the future direction of natural gas prices presents yet another risk and potential cost overruns add to the downside. North America's complex regulatory environment is another challenge.

Governor Murkowski's equity concept could include partial ownership of the pipeline, as well as a role of gas shipper. While both could lead to significantly higher government revenues, the State would share some risk with industry. Overall, the concept is designed to reduce risks for all parties and encourage the project to move forward.

Industry is now studying a State proposal. Partial State ownership of the pipeline is part of a broader contract being negotiated on State fiscal terms.

As a part owner, the State could earn much more revenue than if it just collected taxes on gas production and revenue from its one-eighth share of the gas. The State would earn steady profits from its ownership share.

The biggest reward of the governor's proposal could simply be the project itself. If it becomes a reality, the pipeline would not only bring hundreds of millions of dollars a year into the State treasury, it could extend the life of the oil industry in Alaska for decades.

If the pipeline doesn't move forward, huge quantities of valuable North Slope gas will remain stranded and the industry could continue to move more of its capital investments abroad as existing fields decline. As production declines, the State would face huge budget deficits.

The governor warned that any significant delay in reaching an accord with potential builders of the pipeline would seriously erode Alaska's chances at getting the line built. He said sharing investment cost lowers risk for other participants and provides for a high rate of return that is necessary in view of other worldwide opportunities for investment in energy projects.

The governor said the State should be willing to risk some downside potential in return for the greater upside rewards and the certainty that construction on the project will begin in several years. The estimated timeline for commencement of North Slope commercial gas production ranges from 2012 to 2015.

In testimony before the Federal Energy Regulatory Commission last month in Anchorage, the governor said proposed federal regulations for the pipeline must have guaranteed provisions for access and capacity if Alaska is to get the maximum benefit from the project. The governor said regulations must allow for in-state use of Alaska's royalty gas, ensure all potential shippers

can access the new line and guarantee the line can expand to accommodate newly discovered supplies of gas.

"We are supportive of the governor's ideas around the State taking its gas 'in kind' and securing shipping capacity on the pipeline," said David MacDowell, director of BP's External Affairs – Alaska Gas. "Likewise, we are actively discussing the State taking an equity position in the pipeline itself. These concepts help to create greater alignment between the interests of the producers and the interests of the State, and as such could be helpful to a project."

MacDowell said industry has always supported the pipeline being an open access line, which means that anyone has the right to bid for capacity on the line.

"We hope to have a comprehensive fiscal contract agreed with the administration and submitted to the Legislature for review during the upcoming session," MacDowell said. "We are focused on ensuring we can identify and develop an efficient, lowest cost project, and we're hopeful Alaskan businesses will voice their support for that as well."

Meanwhile, the Alaska Natural Gas Development Authority is continuing to study an all-Alaska LNG project that would deliver North Slope gas to Valdez for liquefaction and export. ANGDA is also investigating ways to add value to its proposal and ensure the needs of Alaskans are met by any gas development project.

The pipeline envisioned by ANGDA would also provide access for Alaskans to the gas. The agency has taken the lead in developing a plan to build a spur line from any gas pipeline project to Cook Inlet for power generation, residential and industrial uses.

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