

STATE CAPITOL  
P.O. Box 110001  
Juneau, AK 99811-0001  
907-465-3500  
fax: 907-465-3532



550 West Seventh Avenue, Suite 1700  
Anchorage, AK 99501  
907-269-7450  
fax 907-269-7461  
[www.Gov.Alaska.Gov](http://www.Gov.Alaska.Gov)  
[Governor@Alaska.Gov](mailto:Governor@Alaska.Gov)

## Governor Bill Walker STATE OF ALASKA

March 27, 2015

The Honorable Cathy Giessel  
Chair  
Senate Resources Committee  
Alaska State Senate  
State Capitol, Room 427  
Juneau, AK 99801-1182

Dear Senator Giessel:

I want to make it clear that I and my administration absolutely want the AKLNG project to succeed. Additionally, we are appreciative of the work the Legislature did on SB 138 to create a process that increases the chances for a successful project. But as hard as we work on this process, it does not guarantee a project. That is why I proposed continuing the process of making the Alaska Stand Alone Pipeline (ASAP) an economically viable back-up to AKLNG.

It is my intention that we, as a State, continue to diligently negotiate and work with the producers on the AKLNG project. For the ASAP project, I am proposing that the State evaluate increasing the project's gas throughput to make it an economically viable back-up. The Alaska Gasline Development Corporation (AGDC) Board recently passed a resolution directing the corporation to develop a cost estimate and a projected schedule for 36-inch diameter pipe at two different strengths. This is in keeping with the 2013 AGDC project plan amendment that increased the pipe size from 24" to 36".

It is also my plan that the State continues discussions with Asian LNG buyers to preliminarily explore their interests in the back-up ASAP pipeline should AKLNG fail to come to fruition. As the AGDC president commented in a press release after a February 2014 presentation by the Japanese consortium Resources Energy Inc.: "REI would be an excellent anchor tenant for the ASAP project," and the "presentation reaffirms our belief that we have a commercially viable project capable of delivering gas to Alaskans by 2020."

Much like AKLNG and the original plan for a smaller ASAP pipeline, details pertaining to financing options, equity ownership, costs, governance and other elements of the project will be determined as the project develops.

My reasons for moving forward with steps to make the ASAP project an economically viable back-up are as follows:

- The decision on whether to advance the AKLNG project to the next phase of engineering and design is out of the State's hands (currently scheduled for second quarter of 2016). Any one of the three producer partners and TransCanada could decide not to move forward for reasons having nothing to do with Alaska.
- ASAP also provides a back-up for any producer party as well as the state to ship gas if AKLNG does not advance.
- Nothing that is being proposed for ASAP diminishes or impinges on the chances of the AKLNG project succeeding.
- I contacted our AKLNG producer partners at a high level prior to announcing my plans for ASAP and have continued discussions with them since. All have indicated an understanding of my proposal and a willingness to continue making progress on AKLNG.
- Having a viable back-up plan is in keeping with how our producer partners do business. These companies work simultaneously on numerous potential LNG projects worldwide. As ExxonMobil stated in their March 4, 2015 analyst meeting, "Simply put, our large resource base affords us the flexibility to select and develop the most attractive opportunities ... We start with high-quality resources with stable, competitive fiscal terms from resource owners. We choose to invest selectively in only the most attractive."

My reasons for opposing HB 132 include:

- By putting a hold on ASAP as proposed under HB 132, we are betting the fiscal future of Alaska on all four of the companies agreeing that the AKLNG project is the "most attractive" of each company's multiple options. We cannot take such an extreme risk when we are facing a \$4 billion deficit. A successful gas project is key to Alaska's economic future.
- In 2006, the Stranded Gas Development Act contract failed in large part because the State put all of its eggs in one basket and then imposed timelines on itself for reaching an agreement. This gave the producers significant leverage to negotiate terms that led to an unacceptable and failed contract. If we tie our hands through passage of HB 132 and do not provide Alaska with a viable alternative, we run the risk of making the same mistake.
- The bill will substantially harm my ability to negotiate terms favorable to Alaska within the AKLNG framework.
- AKLNG is scheduled to make a decision regarding FEED in the second quarter of 2016; however, it appears that HB 132 grants AKLNG a one year extension on that date to July 1, 2017. Managing the AKLNG project through legislation is not in the State's best interests.

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Again, I want to make clear that AKLNG is my administration's preferred option; but we need to be prepared with a fallback if all of the parties to AKLNG are not able to clear the hurdles set out in the 2014 Heads of Agreement.

Sincerely,

A handwritten signature in blue ink that reads "Bill Walker". The signature is written in a cursive, flowing style.

Bill Walker  
Governor