



Representative Harry Crawford

HB 8

Sponsor Statement

HB 8 enables the state to buy the actual pipe to be used for the natural gas pipeline. Specifically, it directs the Department of Transportation to purchase the approximately 800 miles of 48" diameter steel that will be used for the in-state segment from the North Slope to the Canadian border. The state can then negotiate with TransCanada to re-sell the pipe to them when it is ready. This provides five distinct benefits:

- By re-selling the pipe years later at our cost, the state can hedge against expected increases in steel prices.
- By exchanging the pipe for an equity stake in the gasline, if desired, the state can share in the future benefits of the pipeline and be party to all management and tariff discussions
- By showing a concrete commitment to spend our own money, the state reduces industry uncertainty about our commitment to this project
- By procuring 2 million tons of steel in a weak economy, Alaskans can in one stroke provide a major stimulus to retool and modernize the American steel industry, and
- **Perhaps most important, by reducing the builder's cost, it would reduce the pipeline tariff by up to twenty cents.**

That small tariff decrease, multiplied by the volume of the pipeline, would increase the wellhead value of the gas and add hundreds of millions of dollars to state revenues every year. The value over time of that additional revenue will actually be more than the interest we would have lost if we kept that \$2 billion in savings for the intervening years.

In recent years, there has been historic inflation in the price of steel. With the rapidly industrializing economies of China and India, there is every indication that world steel demand will continue to grow and prices will increase well beyond the rate of inflation.

However, the current economic downturn has temporarily depressed steel prices worldwide. It is a buyers' market, but this will not last indefinitely. The State of Alaska has the opportunity to lock in these low prices and take advantage of the market.

According to Tony Palmer of TransCanada, enough steel to build the in-state portion of the pipeline will cost about \$2 billion. We can put that money to work for our pipeline and for America, and can earn a profit in the process.