

Gasline exchange has good points for Alaskans to ponder

Harold Heinze February 24, 2015 Opinion In The Alaska Dispatch

Both Sen. Giessel and Gov. Bill Walker make points that Alaskans should ponder as they consider the direction and status of potential projects to bring our state's abundant natural gas resources to market.

As Alaskans evaluate the status and direction of potential projects developing our very abundant natural gas resources, they should be sure to read Sen. Cathy Giessel's commentary (ADN, Feb. 21), as well as Gov. Bill Walker's commentary (Feb. 19). Both of them make points that Alaskans should ponder.

While I heard Sen. Giessel say on talk radio yesterday that Alaska did not own any gas, I hope she would agree that since the Legislature has by law set in motion the process for the state to become an owner in either of the two gas line projects, that it is important that Alaskans are comfortable with the Legislature's ultimate investment decision. Based on public statements, the House seems very set in its decision already, so I am hoping that the Senate will encourage discussion, rather than suppressing any variation of thought.

I start with the decision process that each of our potential partners will go through before committing to a decade of several tens of billions of dollars invested in North Slope and Cook Inlet facilities, a large diameter pipeline and potentially a fleet of tankers to service the foreign markets.

The largest North Slope gas lease holders (BP, Exxon Mobil, and ConocoPhillips) will at each phase of project advancement carry this decision up the corporate chain to their individual boards of directors. Committing such a large fraction of the corporate cash flow to a

singular project that will offer no return until entirely complete a decade later assures that there will be full vetting and healthy debates of risks, rewards, alternatives, threats and uncertainties at the highest level. The corporate commitment to the Alaska LNG project will be revisited several times over the next few years by each of the three producers' boards with a fresh exam each time. If any one of the companies falter, the project will stop. The fact that the companies are working together is very encouraging, but the overriding reality is that each will decide and act in its own interest, based on its own opportunities for corporate success. While the companies' criteria of project success are different than those of Alaska, they are very good at these decisions, and Alaska would be wise to follow the lead of the Houston board rooms if at any point they turn away from this megaproject approach.

In a similar way, the state's decision on the LNG project lies with the Alaska Legislature, because of its unique power of appropriation granted under the state Constitution. The state's board room isn't in the governor's office, its at either end of the Alaska Capitol building's second floor under the shared leadership of the president of the Senate and the speaker of the House. Sen. Giessel and her colleagues are the deciders of whether the Alaska LNG project goes forward with Alaska investment and how much investment. To the Legislature's credit, much has been done to educate the deciders and to a degree the public, but much more will be required as the seriousness of these decisions elevates. A lot more can and should be done by the Legislature to assure the broadest public consensus on goals, success factors, alternatives and opportunities.

By way of example, the decision by the state to take its royalty gas in-kind or in-value affects every aspect of potential state participation in the LNG project and the long-term fiscal health of Alaska. Alaska's history is rife with past dismal failures on the taking in-kind decision, and in recognition of that, prior Legislatures created a royalty board to provide for full public vetting of any recommendation on royalty disposition coming to the Legislature from the commissioner of the Department of Natural Resources. I am unable

to find the record of that public review in this case, and I have not heard the appropriate dissatisfaction of the Legislature for the failure of the past administration to utilize that existing vehicle. Many thinking Alaskans don't feel that deciding to take royalty oil in-kind and investing in the LNG project can be justified on the basis of "the producers want us to."

Finally, to my view of the governor's role in the North Slope gas project decisions. Gov. Walker has clearly deviated from the past administration by being both a leader and an advocate. That sounds like a CEO to me. Success for Alaska can't be achieved by reaching a flawed "deal" to advance. I don't know if the governor is right that the LNG deal on the table is fatally flawed or whether it has some problems easily corrected, but I am glad that he has spoken out about his concerns. If thoughtful challenge, rather than blind allegiance, is dangerous enough to drive off the "partners," then so be it. The governor (CEO) has the responsibility to execute and implement actions in the best interest of the state, and I haven't seen anything that bothers me in that regard. The governor of Alaska is really a CEO. Plus, he has the power of the red line through the budget items, and we are yet to see how Gov. Walker exercises this power. It certainly is within his authority, and if necessary, I hope he will act to prevent the state making a devastating mistake.

The Legislature in several public statements has expressed its concern with Gov. Walker's replacement of three members of the Alaska Gasline Development Corporation board of directors. I personally knew the three members lost to the state's service and have great respect for them individually as experienced contributors. Certainly the two members with strong industry backgrounds are among the top dozen most experienced pipeline project management people available in Alaska. I also know and commend the three AGDC board nominees recently put forward as "good decision makers." AGDC's role as a public corporation of the state is not to decide if Alaska should risk tens of billions of dollars of public money on the LNG project, but to assure that the best technical, project, business and market information is available to the

Legislature for consideration in their decision. I believe that the AGDC board as reconstituted is capable of directing the AGDC executives, staff and consultants to do that.

Finally, legislative concern over the governor's statement on examining the premise of the Alaska Stand Alone Pipeline project seems to miss the point. Many have been concerned that ASAP as created in detail by the Legislature ignored all of several alternative projects with benefits and virtues potentially exceeding ASAP. In defining the state's fallback position from the producer controlled megaproject Alaska LNG, the state as a matter of prudence should have more than one plan B under development and active consideration. If AGDC as a public corporation remains unable to handle more than one thought at a time, the Legislature can contract with a strong private sector company to evaluate a variety of options without confusing the thrust toward the Alaska LNG project.

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