

ALASKA STATE HOUSE OF REPRESENTATIVES



State Capitol
Juneau, Alaska 99801-1182

February 20, 2015

The Honorable Bill Walker
Governor, State of Alaska
PO Box 110001
Juneau, AK 99811-0001

Dear Governor Walker,

We followed with interest your opinion piece in the newspaper and your press comments articulating a new plan forward on North Slope natural gas development and commercialization. Naturally, we have serious, initial concerns about a change in course that may adversely affect the unprecedented alignment now underway in the Alaska LNG Project, and in redirecting a state entity to compete where the Legislature has statutorily directed cooperation. We hope that you and your administration may alleviate some of those concerns by providing answers to the following questions.

To set the stage, the Legislature passed Senate Bill 138 in 2014 by a vote of 52-8. This vote was a clear statement supporting the framework laid out in SB 138, and for the accompanying Memorandum of Understanding (MOU) and Heads of Agreement (HOA), and also for the new direction statutorily provided to the Alaska Gasline Development Corporation (AGDC). Specifically, the Legislature acknowledged the extraordinary value of the State and the Producers aligning on a common project, and working as partners to facilitate that work.

To that end, the Legislature clearly directed AGDC to prioritize its work on Alaska LNG, while maintaining plans for ASAP as a future option should the parties to Alaska LNG fail to proceed into the next phase of work (Front End Engineering and Design) and, ultimately, into a Final Investment Decision on the joint project. AGDC was to cooperate, but not compete; and to create the appropriate firewalls to enable sharing of confidential information from private sector partners, without the ability to then use that information for other advantage. If, in the future, the private sector partners were unable to proceed with Alaska LNG, only then would AGDC have the ability to use that information to advance an AGDC project alternative.

The new approach laid out in your opinion article and in your press conference appears to run contrary to the principles underlying Alaska LNG, and the Legislature's intent in passing SB 138. We realize that we lack specific details on many aspects of this new approach. We are hopeful you will guide us to a greater understanding.

Our immediate questions are:

- If AGDC is to pursue an equivalent project concurrent with the state's involvement in Alaska LNG, how do you intend to maintain alignment with the state's partners in Alaska LNG? How will they be assured that the state will, in fact, follow through on its financial and partnership commitments to Alaska LNG?
- What assurances do you have from the state's Alaska LNG partners that they will continue their investment in Alaska LNG when the state – previously, their 'aligned' equity partner – is now, in essence, also a competitor?
- Have the Producers and TransCanada assured you of their willingness to move Alaska LNG forward under this new scenario of two competing projects?
- How will you protect the firewalls within AGDC that have allowed critical information-sharing with the Alaska LNG Project? How are the state's partners to be assured that their commercially sensitive information will be protected and not used to further the state's competing, independent gasline interests?
- In the same vein, what is the estimated cost of the state pursuing its own project independently? You indicted a route change and the addition of multiple compressor stations; and, with higher volumes, we understand thicker-walled pipe may be required. The additional data collection and permitting is likely to increase costs substantially. What is the anticipated source of these funds?
- With the producers pursuing their own project, to which they will presumably commit their gas, where will the state obtain gas to offer/ship/sell to other partners in the state's independent project? How will the state market a project without gas?
- When can the Legislature anticipate your administration providing a comparative economic study of the two projects? AGDC has statutory direction to pursue a project that delivers maximum benefit to Alaskans. When will your administration make available the analysis underpinning this shift?
- Additionally, what professional analysis is available to your administration supporting the concept of a demand-pull project? Will that analysis be made available to the Legislature?
- Further, is there analysis that indicates that a state-sponsored project will be able to succeed financially if the Alaska LNG Project, backed by three extremely competent LNG developers with strong marketing contracts globally, is not sanctioned?
- The market wants to pay the lowest possible price for our gas; under Alaska LNG, the producers and the state have a common goal of getting the highest possible price for Alaska's gas. Not only would the new ASAP proceed directly to the market, as opposed to those with gas who share an economic interest with the State, but the new approach seems to essentially give the market multiple supply options, potentially further disadvantaging the State's ultimate price received. Presuming two competing projects are soliciting the market for long-term contracts to purchase LNG, how will your administration protect the state's interests? How will two projects compete for the same market? How will that help us get the highest price for our gas?

- As you are aware, a Department of Energy export license will require an applicant have gas committed to the project and a site secured for a liquefaction facility. Does the State intend to file for an export license? If so, how will the State demonstrate gas is available for the project, when the known gas leased by the Producers has been committed to a different project?

There are few issues as critical to Alaska's future as responsible development of our rich North Slope natural gas resources. We believe you agree, in light of your record on the subject. We sincerely hope that you will give the time and focus required to fully evaluate the consequences inherent in a change in course, and the associated threat that poses to the success of an aligned project.

The Alaska LNG Project holds the keys to unlocking this bounty, for the benefit of all Alaskans, by providing gas to our people, and revenue from LNG sales to overseas markets. The aligned project strikes the proper balance, at this stage, between risk and reward, between costs and benefits.

We are adamant in our continued support for this project, and will be relentless in our work to ensure nothing inhibits the unprecedented alignment and forward momentum we've witnessed over the last year. We must not allow success to be turned into failure by well-intentioned but inappropriate state actions.

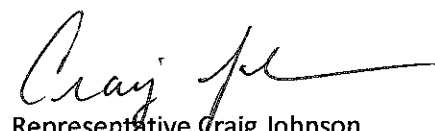
Sincerely,



Representative Mike Chenault
Speaker



Representative Mike Hawker
Chair, Legislative Budget and Audit



Representative Craig Johnson
Chair, House Rules Committee



Representative Charisse Millett
Majority Leader



Representative Dave Talerico
Co-Chair, House Resources Committee