

MINUTES
SENATE FINANCE COMMITTEE
May 1, 2007
9:04 a.m.

CALL TO ORDER

Co-Chair Bert Stedman convened the meeting at approximately [9:04:39 AM](#).

PRESENT

Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman, Co-Chair
Senator Charlie Huggins, Vice-Chair
Senator Joe Thomas
Senator Fred Dyson
Senator Donny Olson
Senator Kim Elton

Also Attending: GOVERNOR WALTER HICKEL, Governor of Alaska 1966-1969, 1990-1994, United States Secretary of the Interior 1969-1970 and Co-Chair, Backbone II; DAVID GOTTSTEIN, Co-Chair, Backbone II

Attending via Teleconference: There were no teleconference participants

SUMMARY INFORMATION

SB 104-NATURAL GAS PIPELINE PROJECT

The Committee heard testimony from Governor Walter Hickel and David Gottstein with Backbone II. The bill was held in Committee.

#sb104

CS FOR SENATE BILL NO. 104(JUD)

"An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."

This was the fourteenth hearing for this bill in the Senate Finance Committee.

[9:05:33 AM](#)

Co-Chair Stedman remarked that testimony regarding the Alaska Gas Inducement Act commonly referred to as AGIA would continue today. The Committee would be hearing testimony from Governor Walter Hickel and David Gottstein with Backbone II.

[9:05:52 AM](#)

GOVERNOR WALTER HICKEL, Governor of Alaska 1966-1969, 1990-1994, United States Secretary of the Interior 1969-1970 and Co-Chair, Backbone II, read his prepared remarks [copy on file] as follows:

Thank you for inviting us to testify here today.

Our North Slope natural gas is Alaska's greatest opportunity to guarantee the long-term viability of our state.

And Alaska is on the right course to make a gasline a reality in this generation.

It's a large project worthy of our great state.

I am just back from Moscow where I have been working with Russian leaders on two other great projects.

The opening of the Northern Sea Route to the world a decision that will link the Pacific and the Atlantic oceans.

It will be a breakthrough of the same dimension as the Panama Canal.

And we don't have to build a canal!

The second great project is a tunnel beneath the Bering Strait, linking the U.S. and Russia.

Those who attended the Conference last Tuesday in Moscow realize how serious the Russians are about this visionary concept.

This link between the United States and Russia is going to happen.

And it's going to change the world.

Alaska's immediate opportunity, however, is our North Slope natural gas.

And it is up to our Governor and this legislature to make sure it is used for the maximum benefit of our people, as mandated by our constitution.

Keep in mind that the people of Alaska ... the voters who elected you ... are the owners of this gas.

You and Governor Palin are the trustees of their inheritance ...

... won in our statehood battle and our Statehood Act.

The companies who hold Prudhoe Bay leases have purchased the right to "produce" our gas.

That's why we call them the "producers".

But they don't own the gas.

And they are required, through the leases they hold, to sell our gas if they can earn a "reasonable" profit.

So, let's get started.

Governor Sarah Palin's plan is a good one.

She has thrown open the process to make sure that the State finds the very best and most timely project.

Her team has designed legislation to put the needs of Alaskans first.

It means revenues for state government.

... gas for our homes...

... gas for our businesses...

... and gas for our remote villages that are in desperate need of affordable energy.

It means making sure that the valuable gas liquids ...

... are available for in-state processing to create high-paying legacy jobs for generations of Alaskans.

It means a pipeline that encourages exploration By the producers and by other companies, large or small, that believe they can find more gas.

Belief is the key to prospecting ... and it is the key to life.

Believe me; we haven't begun to explore the natural gas potential of our state.

And we need a pipeline that will accommodate the discoveries of those believers.

In my view, this does NOT mean shipping our gas through Canada.

Any Canadian route has to resolve...

... "First Nation" land claims.

Treaty problems.

A long, expensive route.

Legal issues among competing Canadian interests.

And one bidder who wants to use our gas in the Alberta tar sands to produce oil...

... an outrageous plan for trillions of cubic feet of clean Alaska gas so needed by our nation and the world.

In our view and in the view of the majority of Alaskans...

... "maximum benefit" means an All Alaska Gasline ... from Prudhoe to Valdez.

It means a pipeline started sooner and completed several years sooner.

It means an energy source for our villages and cities.

It means feedstock for value-added industries and jobs in Alaska.

We addressed the same issue in the 1960s and 1970s over North Slope oil.

We had to force the oil companies to drill at Prudhoe Bay.

When I was elected Governor in 1966, BP had already given up.

So had all the others except Atlantic Richfield.

In early 1967, I flew to Prudhoe to meet with their head geologist Harry Jamison.

And he announced that they, too, were going to pull out.

Governor Hickel expanded on the conversation he had with Mr. Jamison that day. When Mr. Jamison questioned whether Governor Hickel was sincere when he proclaimed "Drill, or I will," Governor Hickel assured him he was. "It's our land and our oil".

In 1968, that rig discovered the biggest oil field in the history of North America.

But two years later as Interior Secretary I had to take Exxon to the mat, or there wouldn't have been a trans-Alaska oil pipeline.

Governor Hickel stated that during his service as Secretary of the Interior, he shared his plans for a trans-Alaska oil pipeline with BP, Anadarko, and other oil companies. They initially told him they were not going to build the pipeline; however, their position changed after he threatened to tell that

to the American public. The message here is that "someone has to make it happen".

Now we have another Governor who is ready to stand up for Alaska and Alaskans.

And the people are behind her.

Ladies and gentlemen of the State Legislature, this is your moment to step forward and stand with her.

The people of Alaska want a gasline now.

Together we can make history, and Alaska will long remember this generation of leadership.

Thank you.

[9:13:39 AM](#)

Co-Chair Stedman thanked Governor Hickel for his remarks. Continuing, he noted that Committee discussion would ensue following Mr. Gottstein's testimony.

[9:13:44 AM](#)

DAVID GOTTSTEIN, Co-Chair, Backbone II, shared that Backbone's support of AGIA "and its major components" is anchored on that fact that "it provides for a competitive process, creates material incentives and attempts to provide for the maximum benefit to the residents of the State. Even a recent Dittman poll indicates that the public, by more than two to one, believes the \$500 million dollar incentive package is worthwhile".

Mr. Gottstein cautioned the Committee to be extremely careful, however, in regards to "who you listen to". "Representatives of the North Slope producers are paid to persuade and convince you that what is good for them is good for the State. It is simply paid advertising without any checks and balances".

Mr. Gottstein contended therefore that much of what the representatives communicate "must be challenged". For example, testimony that "only the producers are capable of financing and building a pipeline of this magnitude" is not true.

Mr. Gottstein trusted Alaska's leaders to recognize such untruths. They should be aware that even though large entities such as TransCanada and MidAmerica corporations, with their financial capacity and experience, were accentuating their ability to participate in this project, "the private equity markets alone have over a trillion, yes that's a trillion dollars of money under management constantly looking for deals".

Mr. Gottstein stated that with the projected gas price forecasts and the federal loan guarantees, the private equity market, "along with the investment banking community, will be chomping at the bit to get a piece of such an investment grade investment opportunity". He warned Legislators not to let the "producers' spin doctors convince you otherwise".

9:15:48 AM

Mr. Gottstein clarified "that the only thing that is necessary to get a pipeline financed and going is access to sufficient quantities of gas to make it economical." The quantities of gas at Pt. Thomson in conjunction with the State's royalty gas would meet this requirement.

Mr. Gottstein stated that "in football its touchdowns; in baseball its runs; in the North Slope the producers attempt to control the process, maintain a monopoly grip, and, on a pipeline, its propaganda and influence peddling."

Mr. Gottstein pointed out that big companies utilize similar tactics anywhere in the world there are "big profit opportunities". They attempt to curtail any project they cannot control.

Mr. Gottstein then addressed the "fabrication that the AGIA process is an exclusive one". AGIA is a "come one come all" process. It's a "defined competitive process that will result in a pipeline sooner rather than later" as it would "attract a more vibrant bidding pool that, by definition, will require more from the winning participants".

Mr. Gottstein declared that "AGIA doesn't preclude the chosen licensee from enriching their pipeline proposal by adding additional participants and aspects after a successful bid, as long as it doesn't mean less for the State".

Mr. Gottstein reminded the Committee that "the State has so much at stake and is in a powerful position to choose what is in" its best interest. "It would be a shame" to abandon the AGIA process in favor of a "non-competitive process" encompassing "just the producers just because the foxes say they know what is best for the henhouse".

Mr. Gottstein questioned whether the State should place "its fiscal future in the hands of those with a long and proven history of over-charging on the oil pipeline and only paying up when the Court of last resort rules so or after a successful negotiation for a fraction of the dollars at stake as a result of a political settlement. Can we really take what the producers say seriously when they won't even attempt to engage in any truly honest and meaningful dialogue?"

Mr. Gottstein contended that even worse, the producers "keep saying they own the gas. They don't. They have strong economic rights to produce the gas, conditional upon certain performance requirements". One only need reference the State's Constitution and the Mineral Leasing Act" to understand the State's rights and obligations.

[9:18:30 AM](#)

Mr. Gottstein shared that "the sincerity in which these hyperboles are put forward has me believe that the presenters believe it because their bosses want them to believe it." Nonetheless, the State "owns the resources and when our tenant violates the lease we not only have a right but a duty to wrestle control back of our vast gas resources and make them available to a hungry nation."

Mr. Gottstein continued. "The North Slope producers, through a slight of hand amendment gimmickry, are attempting to accomplish with amendments what they are failing to accomplish with their aforementioned propaganda, by asking you to provide for non-conforming bids, and or to require their up-stream participation. This would put them right back in control of our destiny."

Mr. Gottstein opined that Representative Mike Doogan might have summarized the situation "about the producers attempt to build the pipeline" best when he said "if they wanted to build one,

they'd be building one. They are immensely profitable companies, the federal government is offering federal loan guarantees, and they control the most important ship in the entire game: the North Slope gas that makes a pipeline possible".

[9:19:29 AM](#)

Mr. Gottstein continued to quote Representative Doogan. "They have everything they need to build a pipeline. They aren't building one. The only logical conclusion is that they don't want to build one."

Mr. Gottstein agreed with Representative Doogan's remarks. Another viewpoint is that the producers might be unable to reach consensus on building a pipeline anytime in the near future. "The North Slope producers were offered everything imaginable under the Stranded Gas Act and still chose defiance."

Mr. Gottstein considered the last gubernatorial election as a strong indicator that people of the State considered the gas pipeline project proposed by former Governor Frank Murkowski "a huge giveaway. Why should we think that if we offer them less, they will do more now?"

[9:20:17 AM](#)

Mr. Gottstein declared "we are in a game of chicken with the North Slope producers. And we lose if we don't have the backbone to secure access to our gas and offer it in a free market and open process." He believed the producers would choose to participate in the AGIA process if it is approved "rather than being left out of one of the biggest investment opportunities in U.S. history; risk losing their leases due to obvious non-performance; or face the wrath of Congress for their intransigence."

Mr. Gottstein urged the Committee "to limit the amendments to ones that increase the likelihood of a successful open season rather than ones that tilt in favor of producer control". Unfortunately, the North Slope producers are concentrating on convincing the State of the merit of "their own exclusive sole source process instead of trying to be competitive. They are gambling that propaganda is the cheaper way to get what they want than the cost of being competitive in a time when our Legislative and public processes are subject to heightened

federal judicial scrutiny due to the potential of conflicts of interest."

Mr. Gottstein urged the Committee to "prove them wrong" by passing "AGIA with the few meaningful amendments" that "will increase the chances of a good pipeline and route sooner rather than later".

Mr. Gottstein advised Members to pass AGIA this Legislative session rather than "force a special session and therefore increase the risk of failure to act".

[9:21:46 AM](#)

Mr. Gottstein concluded his remarks by declaring that "this is our time to take the State back". AGIA would accomplish that.

[9:21:57 AM](#)

Co-Chair Stedman asked that the history of Backbone II be provided.

[9:22:11 AM](#)

Mr. Gottstein explained that Backbone was originally formed when British Petroleum Corporation (BP) endeavored to acquire the Atlantic Richfield Company (ARCO). "A large group of bipartisan Alaskans" banded "together to fight the creation of a monopoly on the North Slope". People such as Governor Hickel were able to communicate to the Federal Trade Commission "the challenges" this would present to the State. "BP was required to divest of the ARCO Alaska assets in order for that merger to be approved."

Mr. Gottstein stated that Backbone organized again approximately "four years ago in anticipation of a battle with regard to the North Slope gas of Alaska" The idea was "to encourage a competitive process so that Alaska's vast gas resources ultimately will be used to the benefit of Alaskans".

[9:23:13 AM](#)

Co-Chair Stedman asked Mr. Gottstein to speak to the job opportunities the construction phase of a gas pipeline transiting from the North Slope through Canada or to Valdez might offer to Alaskans. He also asked about post-construction

jobs, including value-added opportunities that might arise from such things as the development of a petrochemical industry in the State.

Mr. Gottstein considered this "a complex" question as there would be a "myriad of values that the State accrues as the result of a pipeline." In addition to construction jobs, economic benefits would be generated by such things as taxes, royalty payments, and corporate taxes.

Mr. Gottstein noted that this equation should also consider the "risk of the cost of importing energy" if the pipeline was not built in time to deliver gas to residents before Cook Inlet gas was depleted. Other factors could include "the value-added processing, the delivery of energy" to rural communities.

[9:25:01 AM](#)

Mr. Gottstein advised of an important, but seldom discussed, matter: that being the "cost of taking gas out." Removing too much would impact oil production.

Mr. Gottstein thought that Legislators would rank long-term fiscal stability as the State's number one concern. Other matters of concern would include how to provide energy to constituents and how to provide legacy jobs. Construction jobs would be of interest next.

Mr. Gottstein shared that while the construction of the oil pipeline "was a tremendous boom to Alaska, it created huge challenges in infrastructure and other issues, from education, police, and so on and so forth." He surmised that rather than looking forward to the construction phase of this pipeline, people who had experienced the construction of the oil pipeline would more eagerly await the post construction phase of the project.

[9:25:48 AM](#)

Mr. Gottstein thought the gas pipeline would be "the ultimate solution" to the State's long term fiscal issue as the State has "no alternate economy" that could compare to the benefits received from the oil and gas industry.

Mr. Gottstein expressed that the State should increase the Alaska Permanent Fund and other funds to a level that could support the State into perpetuity "when the oil and gas runs out". Inflation and population growth factors must be included in those calculations.

Mr. Gottstein stated that the gas line must be done right with emphasis on its fiscal aspect. "Meeting the energy needs of our rural and urban centers and providing good jobs" should also be a consideration. Value-added processing of "the rich chemicals that we could pull off of the gasline" could assist in addressing these things.

[9:26:51 AM](#)

Senator Dyson understood that the oil and gas industry traditionally transport products to a processing plant near the market. It is argued that because of transportation costs, the State's remoteness, and construction expenses, "it is less economic to process" gas in-state because "we are so far from where much of the demand for the products that come from the gas liquids" is "even if the social values of the jobs" and other benefits are added.

[9:27:47 AM](#)

Governor Hickel pointed out that similar arguments had been expressed years earlier in regards to drilling on the Kenai Peninsula. "They weren't going to drill. We made them drill" and develop the first LNG plant.

Governor Hickel recounted that when he was Secretary of the Interior there was no Secretary of Energy position. Those responsibilities were also under his purview. While the State's political ties are with the nation, its "economic ties" are with Asia. In the late 1940s and early 1950s, due to national market competition constraints, the State had difficulty getting its coal or timber products beyond Seattle, Washington. As a result, the State looked at other options and began to ship coal to Korea and timber to Japan.

Governor Hickel declared that constructing the Liquefied Natural Gas (LNG) plant on the Kenai was a groundbreaking event. At the time, Alaska provided 100 percent of Japan's LNG needs. Today, Alaska exports less than one percent to Japan. Alaska is "an

owner state"; the arguments presented today were successfully addressed 30 years ago.

Governor Hickel stated that when the State's Constitution was being written in 1959, it was recognized that the State needed to have "a different kind of Governor". Alaska's governor is provided "more power than any country on earth", and if the governor failed to meet expectations, he or she could be replaced.

[9:29:21 AM](#)

Governor Hickel insisted that "the market is there; we had the market, and Japan would love to have that LNG market back."

[9:29:39 AM](#)

Mr. Gottstein also responded to Senator Dyson's question. One of the strengths of AGIA is that "it provides for a market driven solution". When developing their application, bidders will carefully review value-added processing options and either exclude or diminish them in the application if it did not "make sense". The State would have an opportunity to evaluate the viability of the value-added options during the application review.

[9:30:12 AM](#)

Mr. Gottstein advised that "no single litmus test" could substantiate that "bigger is better. It is a very complicated issue that involves "serious" consideration of engineering, manufacturing, and transportation costs.

[9:31:16 AM](#)

Mr. Gottstein declared that each company or consortium had its own standards by which to determine whether a value-added process would be of economic benefit to them. This market mechanism would indicate whether it would "make sense" to include the value-added process.

[9:31:29 AM](#)

Senator Dyson appreciated Governor Hickel "reminding us" that the State's markets were likely "west and south not south and east".

[9:31:54 AM](#)

Governor Hickel considered the value-added process to be of utmost importance. The State, as the owner, must insist on value-added activities. When he had demanded the industry develop an LNG plant on the Kenai decades ago, they clearly outlined their reasons for not doing so. Nonetheless, the plant was eventually built. The government is obligated to make such things happen.

[9:32:58 AM](#)

Senator Dyson recounted having been told by a [unidentified] man who had extensive experience "developing and marketing oil and gas" in the State that "maybe at the end of the day, the best solution is that some group, maybe including Alaska's citizens, backed by our Permanent Fund, build the line down" to Delta. Another group could extend a link toward Canada from there and another group might build a line to tidewater. The State would have control "of the values calibrating the meters".

Senator Dyson, observing that Governor Hickel was nodding, deemed that to indicate this was a viable option. The question is how could the State advance this option.

[9:33:55 AM](#)

Governor Hickel voiced "total" agreement with the concept. The governor could make that decision. "The State of Alaska can tell them what has to be done. It's our gas."

Governor Hickel communicated having told this to a president of the United States. "It's not communism if we own our own gasline."

Governor Hickel hypothesized that had Standard Oil Company owned Prudhoe Bay, it would have been unlikely they would have asked another company to build the pipeline. As a former governor of the State, he knew "that they make more money from transporting the oil from Prudhoe Bay to Valdez than they do from selling the oil".

Governor Hickel contended therefore that because the State owns the gas, there was nothing wrong in owning the pipeline. It will take education, leadership, and courage to make it happen.

[9:34:56 AM](#)

Senator Huggins had two questions for Mr. Gottstein. The first regarded his "extemporaneous recommendation of two candidates to be the State pipeline coordinator". The second pertained to the routing of the gasline. While the debate in this regard has primarily concentrated on either running the gas pipeline through Canada or to Valdez, some people he respects have suggested running the line to Kenai or South Central Alaska. This area, which is in close proximity to 50 percent of the State's population base, could be characterized as "the industrial base of Alaska" as it contains oil and gas facilities at Pt. McKenzie and the LNG plant at Kenai.

Senator Huggins remarked that since this route met both domestic and industrial requirements, "why we wouldn't we take the brain power of Mr. Harold Heinze and make that one of the pacing items for a course of action of where Alaska gas goes".

[9:36:00 AM](#)

Mr. Gottstein agreed "with the premise". The State was not limited to only one course of action. The volume of gas that is anticipated to be found on the North Slope could support a variety of options. "The time value of money" would make running a line to Cook Inlet attractive in that it could be accommodated in a shorter time period.

Mr. Gottstein acknowledged "it makes a lot of sense to build a line down to the Interior that could have increased capacity; bring another line to South Central." However, in his view, "the extra time that it will take to vision, design, engineer, and permit an alternative to a route along the oil pipeline will make it less valuable". Nonetheless, the market could make that determination.

Mr. Gottstein continued. "If we bring a pipeline down to the Interior, bring a line down to Valdez, a spur line to South Central, and if and when, all the problems with the Canadian route get solved, and then there's enough proven gas on the

North Slope to finance that project as well, Alaska becomes the big winner." This does not have to be "an either or" situation and if the State approaches this in an "intelligent" manner, "it could be win/win for everybody".

Mr. Gottstein next addressed the question regarding a pipeline manager. "Alaska is, in effect, a medium sized oil company". It should conduct a worldwide search "for the best and brightest within the oil industry" to manage this project for the State.

Mr. Gottstein could not suggest who might be the best to manage the project, absent such a search. He allowed however, that the State is "in a world of very tough competition with experts" employed by large oil companies that have years of experience in the business. Alaska has not "stepped up to the plate".

Mr. Gottstein divulged that when he worked for the Legislature 25 years prior, he had tried but failed to garner Legislative support to hire an oil and gas expert to work for the State. "We are late to the party and the sooner that we recognize that we have these immense values that we need to bring that professional expertise to represent us". He suggested that this person might "be a retired executive from a global oil and gas or petrochemical industry". This would be the kind of person the State should seek on a "consulting if not a management basis to represent us in these hard to be fought battles".

[9:38:56 AM](#)

Senator Huggins wished a State pipeline coordinator could have been hired in January as opposed to hiring one in May, June or July 2007.

[9:39:19 AM](#)

Mr. Gottstein stated that of all the issues the State has to address, passing AGIA is the most important. Doing so would place control of State resources and its future "back in the hands of the State and its citizens. This would clear the path to do other things". Not having a pipeline coordinator in place at the moment was not worrisome to him.

[9:40:06 AM](#)

Governor Hickel supported oil and gas lease conditions in effect in Australia and other countries which specify that the right to a lease would be forfeited if no effort to develop and produce the resource was taken. He contended that the reason major producers do not want North Slope gas produced is because its sheer size would take over the global market, and "they would lose their" LNG leases in other countries. LNG will be one of the "great markets of the next century".

[9:41:09 AM](#)

Co-Chair Stedman asked whether Backbone had identified any area of concern in the current bill or any area "they really liked" and thought "should be strengthened". If so, he requested they provide appropriate language suggestions.

[9:41:45 AM](#)

Mr. Gottstein appreciated the opportunity. There was concern over the value-added processing component language. Backbone also cautioned against diminishing, through the amendment process, some of the bill's "most powerful aspects". For example, substituting the word "may" for "shall" in the provision "the administration shall select the conforming bid that serves the best interests of the State of Alaska" "dramatically dilutes that potential".

[9:42:16 AM](#)

Mr. Gottstein declared that the State is "really in a tough battle against time". In addition, the State does not appear to "want to abdicate anything". He has often said "that the toughest fight in the world has to do with war. The second toughest has to do with the fight for oil. And we're engaged in that battle. Wars are fought over resources and oil is one of those and we need all the tools in the tool box that we can keep in order to make sure that we have the toughest position at the bargaining table."

Mr. Gottstein assured the Committee that Backbone would be pleased to "provide language or critical input" about things they deemed important. They were "generally very favorable of the AGIA process" and supportive of the direction taken in the bill before the Committee.

[9:43:16 AM](#)

Co-Chair Hoffman thanked Governor Hickel for his "decades of service to the citizens" of the State and to his "continued dedication to make sure Alaskans get all that we can out of the development" of the entirety of State resources, "particularly oil and gas.

[9:43:39 AM](#)

Co-Chair Hoffman asked whether the testifiers thought that the "window of opportunity" for the State's oil and gas resources would "pass us by" if action was not taken in the near future.

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Governor Hickel declared that that was "absolutely" the case. The State must make a decision. The State's Constitution provides Alaska's governor immense power. Govern Palin should act like "the head of a company" and say "Do it". Studies have been conducted for 30 years and the State should not wait any longer. Over the past 30 years, Alaska's LNG exports to Japan have decreased from a 100 percent stronghold to less than one percent today. We must "act like owners". "What's wrong with us owning something?" Education and courage is required. Japan would welcome doing business with Alaska.

[9:45:05 AM](#)

Senator Thomas also thanked Governor Hickel for his service to the State and for reminding us that the State is "at a pivotal point" in regards to decisions about its resources.

[9:45:31 AM](#)

Senator Thomas, who has long been concerned about the instate use of gas, thanked Governor Hickel for addressing that issue and asked him to expand further on the subject.

[9:46:11 AM](#)

Governor Hickel stressed that "all we have to do" about the State's resources is "make a decision about where we're going". Alaska's governor has the power to say "Do it". That is how Prudhoe Bay got started. The State, as owner of the resource,

can make this decision. An owner that "asks what should be done" will "get screwed".

Governor Hickel stated that one of the reasons he ran for Governor in 1990 was to resolve the issue of how much the oil companies "owed us". His efforts lead to the collection of "nearly four billion dollars in back royalty and taxes" from the producers. "A decision not studies" should be the avenue taken.

[9:48:20 AM](#)

Mr. Gottstein stated that were the State to only have enough natural gas reserves to meet instate demands, it shouldn't export any. However, Alaska currently has "to import everything".

Mr. Gottstein contended that the Department of Natural Resources and other State entities must be sufficiently skilled "to access what these different values are so we can know what makes sense economically and how to and where to transport our gas and how to value add process" and so on.

Mr. Gottstein declared it fortunate that there was "vastly much more gas than we need in state and we can export it. That's the beauty; that's where our future is". Nonetheless, it is "critical" that a thorough job be conducted in "assessing what instate uses we can have for our own natural gas. We don't want to ship all the gas out and run out in 30 years."

Mr. Gottstein allowed however that many people "believe there are not just 30 trillion cubic feet but perhaps 100s of trillions of cubic feet on the North Slope. And so we have not only the blessing but the obligation to make sure that we put an infrastructure in place that first serves the interests of our home constituency and then monetizes that for the future and the benefit of all Alaskans."

Governor Hickel informed the Committee that when drilling for oil was occurring in Prudhoe Bay in the 1960s, he was told "we're drilling for oil; we hope we don't find gas". He contended that there was "enough gas on the North Slope to supply the North American continent.

[9:50:17 AM](#)

Senator Elton appreciated Governor Hickel's participation in "this important debate". He was struck by the manner in which Governor Hickel both as Governor and as Secretary of the Interior "dealt with the oil companies to accomplish an oil pipeline and to accomplish the development of the North Slope".

Senator Elton asked how Governor Hickel would deal with a scenario in which AGIA had been passed and an entity chosen to build the pipeline, but the major producers chose not to participate in the open season.

[9:51:28 AM](#)

Governor Hickel responded that you just sort of make it happen. There are a lot of companies willing to participate.

Governor Hickel shared that in the 1960s, Japan stated they would purchase Alaska's gas if it was available. Actions of the Governor made that gas be available. Today however, "the market's there, the resources are there, the decision making isn't there."

Governor Hickel stated that the role of a Legislator was to represent the people of the "owner State". Acting as an owner would work here as well here as it does in other parts of the world.

[9:52:49 AM](#)

Governor Hickel recalled that when representatives of Alaska met with Russia in 1969, Russia communicated that they wanted their political system to mirror that of Alaska. The world watches how Alaska manages its resources.

[9:53:20 AM](#)

Mr. Gottstein addressed Senator Elton's hypothetical question. Even though the desire would be to avoid going to court, one approach would be to argue that the lessees were "in violation of their leases. This would involve huge federal antitrust issues. More importantly, it wouldn't take much public relations and advertising dollars to convince Americans that British Petroleum, Exxon, and ConocoPhillips were holding America hostage with our gas".

Mr. Gottstein forecast that "the nation would roar loudly and the producers would be shamed into bringing Alaska's gas to America. That card should be played very forcefully".

9:54:03 AM

Senator Olson thanked Governor Hickel for his many years of service to the State. His actions drew Senator Olson's attention and were influential in his decision to leave private sector employment for public service.

Senator Olson made the observation that both Governor Hickel and Mr. Gottstein had strong ties and beliefs in the private sector. However, the private sector decision making process differs from that of the public sector as private sector decisions are typically made in consideration of the "bottom line". Governmental decisions could become "mis-focused" in such a scenario.

Senator Olson pointed out that there is generally a sense of "hesitancy" in involving government in a project like the gas pipeline. "Political pressures come to bear and money gets spent on other than good business decisions." This is the reason many people "shy away" from such government involvement.

Senator Olson also noted that many people have run for public office because they "failed" in private sector business endeavors.

Senator Olson asked the testifiers to further discuss their reasons for advocating for State involvement.

9:55:27 AM

Governor Hickel stated that when he first came to Alaska in 1940, he "never saw such exploitation in my life". In 1950 when he actively began supporting a road link from Alaska to the rest of the nation, he was told that obtaining permission to build a road across Canada would be impossible. Road proponents persevered and the road was built. This was because a decision was made to build it.

Governor Hickel acknowledged being financially successful in the private sector. "But, there is an obligation to ownership and we've got to understand that if you own something you have an

obligation. And that's where we're getting in trouble, and that's why they put us off." His recognition of the rights of ownership was one reason he was sought after by President Richard Nixon to go to Washington and garner support for the Alaska oil pipeline.

Senator Olson stated that his concern is based on the fact that there are numerous "white elephant government projects out there". These include such things as farmlands in the Interior and the processing plant in Valdez. These and other failed government "experiments" cause him alarm. If this project fails, it would be the "biggest white elephant" of all.

[9:57:00 AM](#)

Governor Hickel pointed out that it was the government not the private sector that advanced space travel. The government is also in control of ocean activities. He urged the Committee "to face reality and stop "looking at a little corner" and consider the whole picture.

[9:57:52 AM](#)

Mr. Gottstein declared that the State cannot "divorce ourselves from the fact that we're in the oil and gas business, irrespective, as an owner".

Governor Hickel agreed.

Mr. Gottstein continued. The discussion should focus on the manner in which the State would participate. For example, if the State owned "the best beachfront property in the world," it could allow another entity "to design, build, and manage and maintain a hotel, but still retain as much of the economic rights as we can in the competitive process."

Mr. Gottstein contended that "owning and operating things are multi-faceted. We can outsource to the business or private sector community all the responsibilities that you" and others might fear "government being engaged in".

Mr. Gottstein declared that the State should not design, build, maintain, or manage the pipeline, "but it can retain as much of the economic values and rights as the market mechanism will bid. Meaning he who leaves the most values to the State wins, and

that's what the AGIA process is attempting to do. So, we don't have to take those risks, we can let the market decide which route, how big, so on and so forth." This would "create the biggest business value, and we can retain as much of those values as the market will allow us in that free market process".

[9:59:38 AM](#)

Governor Hickel emphasized his argument for State involvement by pointing out that the State owns and manages the Alaska Railroad, the State ferries, and the highways. While those operations are going well, a private sector entity might be able to improve them. There "are obligations to ownership", and the State's Constitution provides the State the right to make decisions in a matter.

[10:00:31 AM](#)

Co-Chair Stedman considered these deliberations on the gas pipeline project to be second only perhaps to the decision made on opening the oil pipeline.

Co-Chair Stedman remarked that Governor Hickel has been an integral part of the decision making processes in the State for a long time. To that point, he displayed, a poster designed in 1978 that depicted Governor Hickel paddling a canoe imposed over the outline of the State. The caption read "Paddle over here Wally, we can't afford to have Alaska drifting another term." Each plank of the canoe depicted an issue facing the State. Only one of the issues remains to be addressed today. He contended that the Legislature still has some work to do.

[10:03:04 AM](#)

Co-Chair Stedman ordered the bill to be HELD in Committee.

#

ADJOURNMENT

Co-Chair Bert Stedman adjourned the meeting at [10:04:08 AM](#)