

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

February 1, 2008

3:37 p.m.

MEMBERS PRESENT

Senator Bert Stedman, Vice Chair
Senator Lyda Green
Senator Gary Stevens
Senator Bill Wielechowski

MEMBERS ABSENT

Senator Charlie Huggins, Chair
Senator Lesil McGuire
Senator Thomas Wagoner

OTHER LEGISLATORS PRESENT

Senator Joe Thomas

COMMITTEE CALENDAR

Presentation from Backbone II by Malcolm Roberts, representing Walter Hickel, Co-Chair David Gottstein and Co-Chair Mike Kenny

PREVIOUS COMMITTEE ACTION

No previous action to consider

WITNESS REGISTER

MALCOLM ROBERTS
Representing Former Governor Hickel
Anchorage, AK

POSITION STATEMENT: Commented on an Alaska LNG project.

DAVID GOTTSTEIN, Co-chair
Backbone II
Anchorage, AK

POSITION STATEMENT: Commented on an Alaska LNG project.

MICHAEL KENNY
Backbone II
Anchorage, AK

POSITION STATEMENT: Commented on an Alaska LNG project.

ACTION NARRATIVE

VICE-CHAIR BERT STEDMAN called the Senate Resources Standing Committee meeting to order at [3:37:43 PM](#). Present at the call to order were Senators Wielechowski, Green, Stevens and Stedman. Senator Stedman said Chair Huggins was not able to be here today and he would chair the meeting.

Backbone II

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VICE CHAIR STEDMAN invited the presenters from Backbone II forward - Co-chair Malcolm Roberts, representing Governor Wally Hickel, and Co-chair David Gottstein, and Mike Kenny (former secretary-treasurer, Alaska Teamsters).

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MALCOLM ROBERTS began by saying he was a long-time associate and aide to former governor Hickel. He worked with him when he was Interior Secretary in 1970 and on and off ever since.

DAVID GOTTSTEIN, Co-chair, Backbone II, said he is an interested participant.

MICHAEL KENNY, Co-chair, Backbone II, said he worked as a surveyor in Alaska for 22 years and represented Local 959 for 14 years and acted as secretary treasurer for the last three years.

MR. ROBERTS began by reading some testimony and thoughts from former Governor Hickel. He said Backbone II first started as Backbone I during the merger when BP was acquiring Atlantic Richfield worldwide. A number of Alaskans began thinking about what it would mean for the competition on the North Slope if Arco Alaska was absorbed into one of the other majors. Backbone formed as a group of concerned Alaskans that has included since its beginning Governor Jay Hammond, many former legislators, cabinet officers and ordinary citizens who are focused on oil and gas issues and how Alaska benefits from its inheritance.

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He read Governor Hickel's comments as follows:

Fifty-six years ago this January, I was in Washington, DC as several key Republicans in the US Senate, formerly arch enemies of Alaska Statehood, shifted to our side.

As a 33-year old carpenter and builder, I had flown to DC at my own expense to make the case that Alaska could stand on its own feet, and be self-sufficient, if the Statehood Bill granted us an adequate land and resource base. The bill that had passed the US House just days earlier proposed to give our young State only 3 million acres! Many of the most prominent statehood supporters back home were cheering that statehood was at hand, but I was furious. I explained our problem to Senate Republican Leader Robert A. Taft who listened intently for an hour. Finally he asked, 'How many acres do you need, young man?'

'One-hundred million!' I blurted out.

In the days and weeks ahead, Taft successfully recommitted the Statehood bill, and from that day forward, every draft of the Alaska Statehood Bill included a land and resource entitlement of 100 million acres or more. In 1958 our Statehood bill passed both houses of Congress and was approved at the polls by the Alaska voters making it a Compact between the United States and the people of Alaska. We became heirs to 103 million acres - granted so we could pay our own way and not have to rely on Federal generosity. That's what this discussion of the natural gas pipeline is all about. You own Alaska, Mr. Chairman, as does everyone in this room and every Alaskan watching on TV. You own Alaska!

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As legislators, you share the responsibility and the great opportunity along with our governor as the trustees of what is one of the most valuable legacies from the many-year battle to win our statehood. In that fight, a model constitution was written by Alaskans and that Constitution was approved by Congress and is a part of our Compact. In agreeing to these terms, we created the first constitutional democracy worldwide where the lands and resources are owned in common. I call it the owner state. The Constitution explicitly gives us the guidelines for how to make owner state decisions such as the one before us today.

Is it to 'monetize' the ocean of natural gas awaiting a transportation system at the North Slope or is it to

'maximize' this resource? 'Monetize' means to sell for the best price you can get - to transform an asset into cash. However, all of you in this room are well aware that Article VIII of the Constitution requires that we develop our natural resources for the maximum benefit of our people. Here is what that means to me. With our North Slope natural gas, Alaska can finally break from our colonial past.

Since the Treaty of Cession with Russia of 1867, Alaska's abundant, God-given resources have been almost entirely exported in the raw. In territorial days, our people were forced to stand by helplessly and watch it happen. We were hired by someone else to cut our trees, catch our fish, drill holes in our ground and load our natural wealth into ships, trucks and airplanes for shipment to somewhere else where someone else created year-round, well paying jobs for their people and made fortunes by adding value to those resources - while Alaskans were left earning pennies on the dollar.

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Today, with North Slope natural gas, we have the opportunity to reverse our history of subservience. We were the victims of those delegates Bob Bartlett warned us about at the Constitutional Convention - 'those who come, take, and leave nothing. Or those who lock up our resources and do nothing.'

Our great opportunity now is to use our clean natural gas to help our fellow Alaskans who desperately need heat, light and fuel in our villages and the energy to help our larger communities grow and thrive. We must insist that the precious gas liquids that travel with the gas are used to strengthen our private sector here in our state. That should resonate with those who believe that Alaska needs a strong private sector.

We also have the opportunity to create a revenue stream to cover the cost of state government as we provide basic services essential for our people. In other words, our gas is the key to strengthen both sectors of our unique owner state - an enlightened and activist government and a healthy and creative private sector. For that to happen, I have believed since I first studied the benefits of North Slope gas in the

early 1980s that an all-Alaska line will best serve our people and our state.

For the record, I supported the passage of AGIA and was pleased to learn in late November that there were five applicants. I was disappointed when the State disqualified all but one of them. I imagine that the way the law was written, the State was unable to work with the applicants to help them all provide the 'must haves' defined in law. As a result, we were left with no comparison between an overland Canadian route and a route to tidewater and LNG. When we became aware of this, Backbone wrote a letter on January 14 to Governor Palin urging her team to take another look.

'Without a comparison,' we wrote, 'there will be no way to determine the. The legislature and Alaska people face an all or nothing choice.'

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Fortunately, Commissioners Irwin and Galvin have decided to compare the TransCanada proposal to the benefits of an LNG system. And I am pleased that the legislature, including this committee, had already decided to examine all of the applications and hear out all the companies, entrepreneurs and visionaries who submitted proposals in good faith. Those who want to bury AGIA have already begun shoveling dirt. Don't buy it.

The AGIA process is alive and well. Amendments to the process may be in order, but for the first time, Alaskans can compare the economics of the proposals and the benefits and risks to Alaskans. Much of this information was kept secret from the Alaska people prior to AGIA.

To help you compare the proposals, we have prepared a matrix that compares 9 key benefits and risks (see attached). It is a rough draft, done by volunteers and many of the blanks have not been filled in. I respectfully urge this committee, Mr. Chairman, and the Administration to review this draft, fill in the blanks, and make your own comparisons.

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Senator Joe Thomas joined the committee.

And take your time. Alaskans have worked and waited for a gasline for nearly 30 years. Take another session or even two to ensure that you and the administration make the right decision. From the data in the AGIA applications, you will learn that an Alaska natural gas pipeline is economic. Indeed, it is not only economic it will be enormously profitable. And you will learn that LNG is not a false dream as its detractors have tried to convince you for years. LNG has become as common in the global energy parlance as oil. It, too, is fungible; it can be shipped anywhere or swapped with other LNG produced elsewhere saving time and costs. And it represents a cleaner energy alternative for a world deeply concerned about pollution and carbon release. All three of the major North Slope producers have invested heavily in its development worldwide.

Now let's look at the bigger picture. Let's talk about Alaska's role in the economic fabric of the world. On August 3 of last year, my friend the Russian explorer, icebreaker captain and leader in the Upper House of the Russian Duma, Arthur Chilingarov, planted a Russian flag at the North Pole two miles beneath the surface of the Arctic Ocean. That courageous act made world headlines and ushered in the Age of the Arctic just as Sputnik sparked the Space Age.

For the first time, the human race began thinking differently about the North. The Arctic is no longer perceived as just a cold, foreboding place of little importance to people's lives in the temperate and tropical regions of the earth. The world realized for the first time that the Arctic is a storehouse of great wealth including vast untapped energy resources.

Mr. Chilingarov got our attention partly because the world is beginning to understand that there is a direct connection between energy and affluence, energy and poverty, energy and pollution, energy and technology, and energy and peace. It is my belief, having worked closely with Russia's top scientists and economists for years, that the Arctic rivals the Middle East for energy potential. And a natural gas pipeline through Alaska that turns natural gas into a liquid easily shipped to world markets will be the

first of many great Arctic benefits that Alaska will share with the world.

Alaskans, let's not build for today, tomorrow, this decade or the next. We can build an 'Arctic Land and Marine Highway to the World' that lasts a century (see maps).

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MR. ROBERTS said the first map shows the TransCanada proposal of moving gas through Canada, a distance of 1700 miles. The remainder is the distance to Chicago is about 3500 miles. He advised the committee that the legislature and the administration have to decide the destination and the use of the gas if it goes in this direction and warned that gas going to Canada could end up being totally used to heat up the tar sands.

MR. ROBERTS said the other map illustrated Alaska as a player in taking Arctic resources to the world. He said that China understands the power of LNG both as energy and as an alternative to coal that is a terrible environmental problem for them and is building 10 receiving stations. This is how Governor Hickel thinks they should view Alaska's natural gas.

He continued reading Governor Hickel's comments:

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Thanks to your recent actions Alaska is blessed with a fiscal surplus. So I emphasize, don't be panicked into making a decision. I urge you and Governor Palin to invite a second round of AGIA applications after this one. Welcome these applicants and work with them. A place to start might be a combination of more than one of the proposals currently in the Governor's office. Or perhaps the best applicant has not yet come forward.

Governor Palin has a gift for creative thinking and problem solving. Let's back her up in finding the best way forward. The key is to remember your solemn pledge not to monetize but to maximize our resources for the benefit of our people.

And there's another alternative to bring to your attention. If none of the current or future applicants can truly maximize this resource, there is another way. I would have no problem if the State of Alaska

were to take a major ownership position in a gas line. Indeed, as I have written in a recent column in the Anchorage Daily News, I would have no problem if the State of Alaska were to build our own gas line. If I were a younger, I would volunteer to build it myself for the sheer fun of it. Well, I might charge a dollar a year for my services. A state-owned natural gas pipeline would be no different than the Alaska Railroad the Marine Highway system, the Ted Stevens International Airport, the Bradley Lake hydro electric facility and a dozen other state owned utilities and transportation entities. They are all part of the infrastructure of our owner state.

When you take a look at the potential revenues and earnings, a state-owned gasline will provide enormous benefits to Alaskans - additional billions for both Alaska's public and private economies. In a period of a few years, we could provide abundant, clean energy for Alaskans, our fellow citizens in the South 48 and our friends in Asia. Fellow Alaskans, don't be dismayed by the challenges and the complexities of this opportunity. A new frontier awaits us. Let's go for it! Thank you very much.

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DAVID GOTTSTEIN also read his comments as follows:

Let me start by saying that Alaska is in a very enviable position. We are a storehouse of natural resources, particularly hydro-carbons that are in great and growing demand around the world and AGIA has shown that interest in and the economics of a gas line are robust on a global scale. Our future is bright if we stay the course and let the competitive process run through to completion.

Like most Alaskans, I was disappointed that the Port Authority LNG project bid was deemed to be incomplete and therefore not eligible to be selected in the next phase of AGIA. The phase whereby all remaining participants would be evaluated and compared for a determination as to whether they meet the ultimate standard or representing the project that provides for the maximum benefit to the residents of Alaska.

Even though there are members of Backbone who in their gut genuinely believe that LNG option represents the best all-around gas line option of Alaska, our official position is that all legitimate proposals should be considered and that the best project as deemed by the people of Alaska should be the project chosen. Our caution and advice to the administration first and foremost was that Alaskans would be very uncomfortable if they were faced with an all or nothing TransCanada option without any comparison to an LNG one. That the TransCanada option should only be chose if Alaskans are able to see and judge the differences and after that they conclude it is the better option. Otherwise we will be faced with a divisive electorate and an again stalled process.

Most Backbone members believe that ultimately there will be enough gas discovered that a route to Valdez, the LNG option, and one through Canada will both eventually be commercial viable in combination. The question becomes which direction we go with first. That is in the large part what AGIA will answer.

It is no doubt that ConocoPhillips and the other producers with that AGIA will fail and go away. Then they will claim that they were right in the first place and that only they can do the project. All indications now are that that is not true. There is demand for our gas qualified entities are willing to commit to it. The producers are in a game of chicken however. They want us to believe that they control the gas and only they can bring it to market. That is true only if we let them. The truth is that now we have proof of a market through the TransCanada bid.

Requiring the producers to supply commercial volumes of gas or be subject to lease violations. That is in addition to the anti-trust exposure they incur by withholding our gas from an economic market. The lack of requiring take-or-pay contracts in order to make use of the federal loan guarantees means that you don't even need buyers to obtain financing which means it will get financed and built, they will have to come. The producers posture that the supply of gas for a project is in question, but it isn't really. Not if Alaska simply exercises its rights. AGIA's important open season and access requirements will greatly

enhance the long term availability and growth of supply. In the end the producer will participate not necessarily because they want to, but because they will have to - at least on the supply side.

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One of the classic and most profitable achievements on Wall Street is to garner the rewards and ship the risk off to others. That is simply what ConocoPhillips is trying to do by demanding fiscal certainty. They err in thinking we are foolish enough to grant that to them. It's a two way street however. I would expect them to react being equally appalled should the state demand fiscal certainty in the form of a floor for well-head values at \$90/barrel of oil and \$8/mcf of gas. Risk is a zero sum game. As long as there is a market ready to commit without such fiscal requirements, as there certainly has been proven exists, we don't need to grant the producers such a huge risk subsidy. So remember, the term fiscal certainty is code-word for less risk for them and more risk for us. Intel and General Motors don't receive these kinds of special income tax commitments when they invest billions of dollars in new plant and equipment. The benefits of doing business in land governed by the rule of law, property rights in a secure environment is balanced by the uncertainty surrounding the future decisions of a free people in a democracy. So, only when ConocoPhillips gets in the game for real should their proposal be taken seriously.

We are not opposed to producer participation, but let us remember that a purely producer owned line gives them more control and advantage by limiting the distribution of the product to the markets they sell into as opposed to an independent pipeline company that makes more money the more gas put through the pipeline.

We also believe that how gas is brought to market is not just a state issue, but a national one as well. The federal loan guarantees are a reflection of that because of nation priorities. At our own peril, we would be naive to think that part of the benefit calculus will not consider the amount of oil from Canada that could be set free from the tars ands and

made available to the North American market reducing our dependence on foreign Middle Eastern oil sources. It is not so much an Alaskan issue, but it will influence the Federal Energy Department's thinking.

All that being said we believe that the administration was faced with a difficult set of circumstances. They wanted to maintain the integrity of the AGIA request for application process, but also maintain a path to wind up with the best project for Alaska, whatever that might be. On the other hand, the Alaska Gasline Port Authority application represented the only Valdez/LNG routings, the one that most Alaskans believe has a good chance of being the one providing the maximum benefit.

But a failed Port Authority bid doesn't default a Canadian route being superior without even a comparative evaluation. That is why I believe the Palin administration has offered a solution that is fair, reasoned and falls within the AGIA process. And that is only if the TransCanada proposal can be publically shown to be better than an LNG option, will it be granted a license. It might be that we have to take an extra step to get to the right place but we have waited 30 years. We can wait a bit more.

The good news is that we will know once and for all from an estimate point of view what the net present value of the state both approaches contain the access to energy by Alaskans the value added processes anticipated the permanent jobs created the offset of oil revenues due to volumes of gas shipments, the costs of completion to Southcentral consumer in higher energy costs and many other values, both positive and negative. The rough part comes in deciding which is best in combination. Is more volume and money later, and more uncertain, more valuable than smaller less risky takes? And how much net present valued does it take to be worth more than a good paying job? These are the kind of judgments you legislators and the Alaskan public will be faced with in the final analysis. It will be your job now to keep the administration's feet to the fire with regard to a full and thorough comparison of an LNG versus Canadian route. A good understanding of the TransCanada proposal will tell us a lot about the economics of a

producer lines as well, should they ever decide to come to the party.

Part of the good news is that the administration rightfully and artfully has crafted a framework to keep us on track and heading in the right direction. Only if in totality a TransCanada line outshines an LNG option will we grant the license. If not, we have the ability to move directly in a way that matches the landscape at the time for a final assessment and determination.

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Before I leave you today, I wanted also take a very brief opportunity to comment on another topic, not totally unrelated as it has also to do with energy for Alaskans. It is my opinion that there needs to be a more rational alignment of generation, transmission and the distribution of electricity in the Railbelt and on to rural communities and the state has a big role to play and has an interest in making sure it is done well. I think the merger discussions by ML&P and Chugach just represent the tip of the iceberg in that regard.

Twenty years ago I was active in the attempt to build a Susitna Dam project. As there has been a lot of inaccurate information transmitted regarding it, I wanted to make sure you had an accurate framework. I am not active in any new movement, but contrary to what others have suggested, Susitna's generating cost was in the 11-14 cents per kilowatt, not the 30 cents bantered about. Also, the whole reason it collapsed was that the price of oil dropped to \$12 per barrel in the mid eighties. I remember it well and was personally instrumental in pushing for transparency in the break--even economics of the project. I and others pressured Harza Engineering, one of the joint venture project partners of Harza-Ebasco, to provide that analysis. The answer was \$18/barrel. With \$12 oil and dramatically reduced state revenues, the appetite for more money for dams evaporated.

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Now, I am not an expert or up-to-date on the current economics of a dam, but what a shame with \$90/barrel hindsight and \$18 break even economics that we lost

the momentum. I don't know if the cost of the project has gone up equally five-fold, but it might be worth a look. And it could be a good long term solution to providing low cost energy for Alaskans far in to the future long after gas and oil run out. Alaska could benefit when oil and gas prices are high, but our residents could be protected from high energy prices with a more green solution.

Thank you again for allowing us this ample opportunity to share our thoughts.

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MICHAEL KENNY read his comments as follows:

Thank you Chairman Huggins and members of the Resources Committee for the opportunity to address and offer to you some thoughts which may assist in illuminating the path I believe all Alaskans crave to travel; the path that will bring our Alaskan North Slope (ANS) natural gas to market, the path that leads present day and future Alaskans to the prosperity bequeathed to us by the first people and pioneers of the Great Land through their toil and steadfastness and foresight.

I speak to you as an Alaskan associated with the group known as Backbone. We may speak with differing tones and voices, but we are in complete harmony with our lifelong dedication to make certain that when the natural resources of Alaska are developed it is done to the maximum benefit of its citizens. This requires us to act wisely with our focus not on monetizing our development of non-renewable resources or a short term windfall in our life time but on making certain maximum benefit extends to future Alaskans. Our Constitution was not written to cover only those of us here in the present. Alaska is an owner state - a great blessing carrying with it great responsibilities to future generations.

My intention in addressing you today is to share my concerns that without a proper comparison of competing routes and projects, the mandate expressed in our constitution will not be met.

It is my opinion that the process followed to date under AGIA is vastly superior to the process the previous administration utilized in 2005 under the auspices of the Stranded Gas Act. But no process is without flaws and AGIA is no exception. Only one application is judged acceptable by the administration and it is for a project to deliver Alaska gas to Canada. There are some words in the approved TransCanada application that vaguely refer to an LNG alternative, but there are two precise and distinct applications proposing an all-Alaskan LNG route were disapproved for different reasons. The administration also indicated that they were not completely dismissing an LNG project. We shall see what that means.

I trust that a license will be awarded only after a thorough and transparent analysis of the competing routes and projects. It is difficult to look forward to a license being awarded to an applicant because it was judged most successful at navigating the application process. We deserve a thorough examination of the competing visions. A decision of this magnitude will reverberate far into the future and must be the result of today's Alaskans understanding the pros and cons of the various alternative and coming to a reasoned decision. The following eight observations are offered for your consideration.

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First, the producers, ExxonMobil, BP and ConocoPhillips have gone to great lengths and will continue to do so to preclude Alaskan LNG from competing in the Pacific Rim marketplace, the world's most lucrative market. Relying upon industry funded studies undertaken during the Knowles administration they claim Alaskan LNG is not competitive. That may be accurate from their internal corporate point of view in terms of maximizing their stockholders return on investment. Furthermore, most sovereigns, unlike Alaska, grant development and production leases on a "use it or lose it" basis, so the stockholders expect the leadership of BP and ConocoPhillips and Exxon to maximize and not lose the leases in Indonesia for example. The AGIA has highlighted the fact that Alaska LNG does make economic sense to a number of global energy giants. It is ironic that the TAPS oil pipeline

routing to Valdez was aggressively demanded by some of the same Alaskan resource leaseholders precisely because Alaska is located at the crown of the very lucrative Pacific Rim/Asian markets.

A second observation is that LNG is the wave of the future. The largest investment that Exxon has ever made is in an LNG project with Qatar for the production of liquefied natural gas, which they will ship into the Gulf of Mexico and which will eventually find its way to markets throughout the Northeast and Midwestern United States.

There is continued speculation that a consortium modeled on OPEC will be formed. LNG is becoming a global commodity and it offers a dynamic flexibility in reaching lucrative markets. LNG is so very 21st Century.

The third observation - the Mackenzie Valley Pipeline (MPV) project is floundering. Imperial/Exxon stated that the \$7 billion estimate in 2004 made the MVP very marginal indeed. The producers headed for the exists, however, when the estimate in early 2007 came in at \$16.2 billion (in 2006 dollars) and the Canadian government showed no interest in using taxpayer dollars for subsidies and guarantees in the face of the recording breaking profits being announced by the producers. Reportedly there is now a proposal to have TransCanada part of the aboriginal pipeline group build and own the \$8 billion pipeline while the producers withdraw from the aboriginal pipeline group and invest \$8 billion and the necessary infrastructure at the Mackenzie River Delta gas fields.

The past CEO of Exxon, Lee Raymonds, and his successor, Rex Tillerson, have stated in no uncertain terms that the MVP must precede the Alaska Highway Pipeline project (AHPP). Of course their preferred project is to bring the ANS natural gas "over the top" and thus make the MVP more lucrative. Many Alaskans considered their manner and tone to be disrespectful. Rising above this now familiar arrogance and the really huge conflict of interest inherent in the possibility that both the MVP and the AHPP are in TransCanada portfolio, we wonder why is it so

important to get that Mackenzie natural gas to the south, which brings us to the fourth observation.

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The answer can be found in two words - tar sands. In order to extract and produce synthetic oil from the Athabaskan tar sands, huge amounts of natural gas and water are necessary. Since it seems likely that Alberta has already passed peak production of its natural gas, the energy firms will be reliant on tapping in to new energy sources for their needs. Eventually full development of the tar sands will yield an amount of oil exceeded only by Saudi Arabia. It is gigantic and it has attracted gigantic investments from all over the world.

Since natural gas is the key to the profitability of these investments, pressure is being applied to assure a source or sources are available. Alaska is certainly a location that has attracted great attention of late. The corruption scandal is but one symptom. The case for building the AHPP is shrouded with talk of transporting our natural gas to the Midwestern United States. It would be extremely surprising if that talk corresponded with reality. Our Alaskan gas is needed for the Canadian tar sands and our natural gas solids for the Alberta petrochemical industry.

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A fifth observation: The tar sands projects have drawn increasing opposition as the mining has gone forward. Many environmentally inclined Canadians view the use of natural gas energy to produce synthetic oil energy as extremely wasteful much as many Americans feel using corn to produce oil is a waste of resources - the energy used to do it exceeding in some cases the energy received from making the oil. The Canadian emissions inherent by using this amount of natural gas will exceed the Kyoto Treaty by over 25 percent and the greenhouse warming will be increased proportionately. First Nations organizations are upset over the degradation of the water tables, the Athabasca River Drainage and the Slave Lakes. Labor organizations are concerned by the importation of workers from Indonesia and other Asian countries who are afforded little if no protection and can be deported at the whim of employers.

It may never reach the critical mass between these organizations to stop the tar sand development, but it can be effective to stop development of the Mackenzie Valley pipeline or the Alaska Highway pipeline thus gaining leverage over the tar sand development.

A sixth observation. Future developments in the Arctic Ocean and the Beaufort Sea are no longer deep in the future. Political maneuvers this past year by Russia, Norway and Canada indicate they are aware of the huge potentials and are staking out their claims. Alaska's oil transportation corridor connecting the Arctic Ocean with the Pacific Ocean will be enhanced by the addition of a gas transportation system in the same corridor. Connecting the Arctic Ocean with the Pacific Ocean is something that will come about sooner or later and it's better that we build this now.

Seventh observation: It looks like the fear card is now back in play. Like the ghost of Christmas past former Governor Murkowski has reappeared to promote the producers as owning the gas and whose interests are paramount. Almost simultaneously voices from Washington DC can be heard warning of a federal take over. The oil industry has enjoyed unparalleled influence over American policy for the past eight years. There is a very good chance that that deck will be reshuffled coming this November. I believe that our decisions should not be rushed by those types of threats. It may come to pass that a new president or congress may decide a project such as Sinopec's which promises to over the lifetime of that project reduce the balance of trade deficit that we have with China by \$500 billion. That may be of interest to a future administration.

I remain confident that when the administration and legislature examine and analyze the competitive routes and projects including the Chinese in a transparent and informative deliberation, Alaskan's will be overwhelmingly supportive of the result. The result down not have to be a zero sum game where there is only one winner.

While I do not claim to be fully informed, it does seem that the all Alaskan route can be accomplished in

a short time frame and more importantly has the advantage of being within Alaskan and American sovereignty. The producers have powerfully robustly, sharply and fiercely demanded fiscal certainty. I believe Alaska must in the same way demand certainty of another sort and that is the certainty that if the line goes through Canada that we have certainty that there is no agendas by either the foreign government of the producers to impede the development and transportation of our resource. That certainty will never be attained; it can only be realized if we avoid foreign entanglements in our routing. This is not meant to imply that after we have completed an LNG project, and with the expected discovery of much more Alaska North Slope natural gas, a spur line to Alberta would be inappropriate.

Great comedy is reliant upon great timing and of course the tragic face of comedy may reflect poor timing. If we were to transport our gas via a static delivery system, 1700 miles inland we would be building last century's project. Turning our backs on the historic opportunity available to Alaska via a dynamic, global LNG project would certainly be a tragedy.

I thank you very much for allowing me the opportunity to share my observations with you.

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VICE-CHAIR STEDMAN stated that Chairman Huggins is inviting the firms from the tar sands to testify before the Resources Committee. He believed that gas in Alaska is clearly one target to get that energy source to extract that oil.

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MR. KENNY responded he would be all for sending gas to the tar sands if the LNG piece were in place. It's a question of priorities.

VICE-CHAIR STEDMAN said the legislature was concerned also that the liquids would be available to the state so that it could develop a petro-chemical industry. They recognized that Alberta has issues with supply.

SENATOR STEVENS asked Mr. Kenny to flesh out his comments on the threat of a federal takeover.

MR. KENNY responded that a report has floated around Washington DC since the \$18 billion guarantee that if Alaska doesn't act that the federal government would step in and make certain that the gas was monetized and sent to the Midwest. The DC negotiations were two-pronged - one was for a floor for the price of natural gas. That wasn't supported by our usually allies in Louisiana and Texas. They weren't too keen on the \$18 billion guarantee, but the Midwestern Democratic senators were very interested in getting what they thought would be a good cheap supply of American natural gas. Given that dynamic comments were made that this is where we are headed. There is a certain school of thought in DC that if this doesn't happen, that the feds could take over. He didn't know how it could be done legally.

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SENATOR WIELECHOWSKI expressed appreciation of their coming down and asked what happens to Backbone if the governor goes with the TransCanada bid.

MR. GOTTSTEIN replied if there's a fair hearing and it becomes obvious to Alaskans that a TransCanada project provides more benefits to the residents of Alaska, they "would sign on." In the absence of that, Alaskans would have a tough time. If the economics of an LNG project represents 98 percent of the value a TransCanada project along with a lot of jobs, it would be hard to argue against it. But if it had only 80 percent of the value, it would be a tougher decision. Backbone believes that it should be a decision of the Alaskan people.

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VICE-CHAIR STEDMAN said they have the old Stranded Gas fiscal analysis and hopefully the administration will come forward with one from TransCanada. He didn't know how the body would make a decision without an analysis of the economics.

MR. GOTTSTEIN said the challenge is that comparing the projects is like comparing apples and oranges. Not all the projects have the same types of values. An all Alaskan project provides value through jobs, but he agreed the onus is on the administration to do a good job of the analysis.

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MR. ROBERTS urged the committee to ask the administration for a model of what an LNG option would be and to ask the presenters in the coming days to add what they could to it.

Vice-chair Stedman thanked them for testifying today. There being no further business to come before the committee, he adjourned the meeting at [4:37:09 PM](#).