

**SENATE AND HOUSE
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Thursday

No. 3

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Address by

The Honorable Lisa Murkowski

United States Senator

Before a Joint Session

of the

First Session of the

Twenty-Seventh Alaska State Legislature

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Thursday, February 24, 2011

Juneau, Alaska

The following was submitted for publication:

Mr. Speaker, President Stevens, distinguished members of the 27th Alaska Legislature, and fellow Alaskans – thank you for the exceptional privilege of addressing you today.

Since we last met, we lost two leaders whose wisdom and foresight helped bring about the Alaska we enjoy today – Governor Walter Hickel and Senator Ted Stevens. I have had much to say about my mentor Ted Stevens over the past few months. Today, I would like to reflect a bit more about Governor Hickel’s teachings for they bear great relevance to the challenges we face going forward.

Governor Hickel challenged every Alaskan to think about our State as an owner. He helped us appreciate that Alaska’s prosperity lies in the prudent development of our natural resources we own in common. And he reminded us that the decisions we make have consequences.

We’ve taken these teachings to heart. Since the late 1970s, with a few setbacks here and there, we’ve enjoyed a steadily increasing level of prosperity. Our state is on a strong financial footing. Our unemployment rate is well below the national average. We have a permanent fund worth nearly \$40 billion.

We’ve grown comfortable with this exceptional quality of life. But can we be sure that the Alaska we enjoy today will be the Alaska we will enjoy tomorrow? Can we take this prosperity for granted? My answer and my message to you is this: we cannot take Alaska’s future for granted.

The time has come to make some critical decisions concerning our State’s financial and economic security. So I’ve chosen to forsake the laundry list of issues that are normally part and parcel of my legislative address to focus on oil and gas. Oil and gas – deliberately in that order.

In recent years, we’ve devoted a lot of energy to the question of how we will transport Alaska’s gas. Far less energy to the consequences of the persistent decline in Alaska’s oil. While both commodities are critically important, we can’t focus on one to the exclusion of the other.

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For more than 30 years Alaska has counted on production from the North Slope oil fields to fuel our State's economy. That production supports more than 100,000 jobs and about one third of Alaska's total economy. Today, royalties and taxes from that production fund about 87 percent of the state's general purpose unrestricted revenues. Those revenues, and the state and local services they support, provide a vital foundation for the good life we enjoy in Alaska.

Bringing Alaska's vast supplies of gas to market won't secure our State's economic future in the way that keeping the oil flowing will. Gas simply will not fill our State's treasury in the way oil has. Not even close. In my view, if we expect to maintain our quality of life, we must retain and enhance the revenue stream that comes from oil production.

We all know that production from the North Slope oil fields has been on the decline for decades. But it doesn't seem we fully appreciate the grave consequences of this decline. Today we face a very real possibility that TAPS will shut down within a matter of years. Shut down because there is simply not enough oil being discovered and produced to keep it running. And once shut down, the law requires that TAPS be dismantled and the right of way be remediated.

This January, the people of Alaska and world oil markets received a wakeup call when TAPS was shut down for 142 hours as a result of a leak at Pump Station 1. A scary new phrase entered our vernacular – "low flow."

The January shutdown called our attention to just how difficult it is to operate an 800-mile pipeline that's just one-third full. The Trans Alaska Pipeline was built as a warm oil pipeline. Lower throughput means lower temperatures inside the line. This creates a variety of engineering and operational challenges during the winter months like icing and wax buildup.

Alyeska, to its credit, is doing what it can to adapt to this new reality. But we must come to grips with another reality. Operating at lower and lower flow rates will eventually prove impossible from both an engineering and economic perspective. This has led some to conclude that by 2017 or 2018, or not long after, it will simply be too expensive and too hazardous to continue operating TAPS.

I'm not overstating matters when I suggest that our greatest challenge today is to prevent the decommissioning of TAPS. TAPS is not just a pipeline it's our lifeline. When it is at stake, so are we.

We will overcome this challenge by doing all that we can to bring new North Slope oil reserves on line. Alaska's oil production has declined by 36 percent since 2003, even as production in many parts of the Lower 48 has increased.

We can reverse this trend. There are perhaps 50 billion barrels waiting to be produced between the offshore Arctic, in the National Petroleum Reserve and in the Coastal Plain of ANWR. Those estimates have the potential to grow as our frontiers are fully explored.

Given these possibilities, the question of why Alaska's production is declining while overall US production is increasing simply cannot be ignored. North Dakota is now on the verge of overtaking Alaska as the nation's second-largest oil producing state behind Texas. The Director of their pipeline authority was recently quoted as saying, "Oil development is booming up here in North Dakota. That is going to continue for the next 10 to 20 years."

So how is North Dakota racing ahead of us? It's simple. North Dakota's new oil discoveries are located primarily on state and private lands. Over the past several years, as North Dakota has welcomed oil producers to its non-federal lands, development of oil reserves on federal lands in Alaska have been blocked everywhere at every turn.

In his State of the State address, Governor Parnell spoke about the overreaching nature of federal intrusion into Alaska. It is very real. We have an integrated system of federal land use and environmental laws. These laws, coupled with restrictive agency interpretations, bog down the permitting process and invite prolonged litigation. The result is gridlock for Alaska – boom for North Dakota.

On Capitol Hill we know something about gridlock. And we know how to break through. When our Nation faces a crisis Congress quickly moves to fix it. Congress can move when it wants to.

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Yet it continues to amaze me that this Nation tolerates gridlock year in and year out when it comes to energy decisions involving federal lands. It is in this Nation's interest – as well as Alaska's – that we break the gridlock that threatens to put TAPS in the scrap heap. That's what I intend to do in Washington.

I'm the Ranking Member of the Senate Energy and Natural Resources Committee, which has oversight of the Department of the Interior. I'm also the Ranking Member of the Interior Appropriations Subcommittee, which controls the budgets for Interior and the EPA.

There are many responsibilities associated with these positions, but in my view, none more important than removing the barriers to production of Alaska's oil. We must ensure that Shell finally receives its air permits so we can begin to develop the massive resources beneath the Beaufort and Chukchi Seas. We must ensure that a simple bridge can be built in the National Petroleum Reserve so that CD-5 and other areas can be developed.

When I get back to work in the Senate, I will call more forcefully than ever before, using every option available, for this administration to work with us to preserve TAPS. That will probably require me to throw some elbows and ruffle a few feathers. I'm good with that.

Accessing NPRA and the OCS reserves are jobs one and two. But Washington also needs to hear Alaska clearly – our resolve to produce energy from ANWR remains as strong as ever.

World events are once again reminding Americans that we must do more to produce our own energy. Crude oil prices are at a two year high as we watch the unrest that has spread across the Middle East and North Africa. This unrest is raising the specter of a serious disruption in the crude oil supply.

An acute awareness of these vulnerabilities has put ANWR back on the table. And this time, it's not a question of whether 2,000 acres should be opened to development – it's whether we can afford to keep them locked up any longer.

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The results of last November's elections have also changed our national conversation. The message of the election was create jobs, improve security, and pay down debt. ANWR checks all of those boxes.

Based upon today's oil prices opening ANWR could yield 153 billion dollars to the federal treasury in the form of lease bonuses, royalties and taxes.

I believe the House of Representatives will lead the way by passing legislation to open ANWR this spring. Then it will be the Senate's turn to act, and I will do everything in my power to convince my colleagues that this is the right decision for both Alaska and America.

The fight in Washington to ensure that Alaska has access to oil reserves on federal lands is critical to Alaska's economic future and our Nation's energy security. And I will lead that fight.

But as Alaska reaches the tipping point that may determine whether TAPS has a future, we must also grow our oil production from state leases. These decisions are in Alaska's hands. Only Alaska can do what's necessary to ensure that oil production from state and private lands is economically feasible.

I strongly urge you to act on Governor Parnell's proposed oil tax revisions. I know that not everyone agrees with the Governor's proposal, but I share his concern that Alaska's tax rates are hurting our competitiveness for oil related investment.

Think back to North Dakota. They charge 11.5 percent. Texas charges 4.6 percent. Here in Alaska, we're at 25 percent – more than twice as high as North Dakota. More than five times higher than Texas.

Tax rates matter because oil is a global enterprise. Companies don't have to choose between drilling in Alaska and not drilling at all. If they want to drill in America, they can drill in Texas or Utah ... or on those state lands in North Dakota.

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If companies want to explore offshore, they can wait it out in Alaska, or they can head to Angola. And if they're looking at the Arctic, they can choose Canada, Greenland, or Russia. And some already are.

I think a compelling case can be made that it is more important for Alaska, at this critical juncture, to lay a foundation for sustained oil production than it is to maximize short-term oil revenues. Focusing on production will help save TAPS and keep our budget stable. Focusing solely on revenue risks the shutdown of TAPS – a meltdown for our budget and a hemorrhage of Alaska jobs.

Attracting new investment is critical and our tax policies matter. We must not only be competitive with other states but other countries if we want to stay in the market.

Now, what about the gas? The things I'm about to say will be hard for some to hear. I'm not saying them for applause; I'm just asking you to think about this.

A big line is Alaska's top choice and I will keep doing everything possible at the federal level to make it happen. Right now we're showing patience for AGIA – and a number of dominoes must fall for this plan to succeed. But one domino - maybe the first one - is still up to you.

While we cannot lose our focus on oil tax reform, there's still unfinished business until we agree on fiscal terms for gas. At some point you have to ask yourself why we're waiting. No matter what gas project happens, it needs a fiscal structure. That fiscal certainty could draw in other proposals as well. I'll name two that deserve serious consideration.

First, I believe it's time for the State and the producers to consider selling a percentage of their sequestered gas into a small gas-to-liquids facility on the North Slope. I'm told that verifiable engineering studies show that one GTL plant's upfront cost is about a billion dollars and can convert gas into about thirty thousand barrels of oil each day. That seems worth a pilot plant – this would at least add some new synthetic crude into TAPS and extend its life.

Building a gas-to-liquids plant would not foreclose our ability to build a gasline. There's more than enough gas waiting to be developed. That allows for David Gottstein's proposal for the State to help finance a large diameter gasline to Fairbanks as well. This would open up a range of market-based options for our gas. A pipeline to Fairbanks could still connect to a pipeline that runs southeast through Canada. It could encourage a bullet line that runs to Anchorage or to an export terminal.

If gas to liquids plants were built in Fairbanks, we could liquefy gas there as next generation jet fuel to preserve Eielson's future and also send liquids down TAPS or by rail to Southcentral for Elmendorf and to Ted Stevens Airport - keeping our cargo hub status competitive.

I'm not endorsing one project over another. The markets have to decide which is deliverable in a timeframe that's acceptable to Alaska. But we need to take these competing options seriously. These deserve full vetting right now – in case we need to pivot to them.

But whether you like one, all, or none of the above, your vote on fiscal certainty advances our effort to develop the gas. However we eventually choose to do it.

Lots of decisions before us. Lots of hard decisions.

The responsibility for making these decisions falls to all of us as the owners of this State and its resources. Governor Hickel guided us well. I am confident that we are up to the challenge.

The future is ours. It's time for us – Alaska's people and their elected representatives – to take control and ensure that our full potential is realized.

I end with the words of our friend Ted Stevens as a reminder to us all. "Just do what's right for Alaska."

Please report corrections to the Senate Secretary's office.