

**Alaska Support Industry Alliance**  
**October 7, 2010 – Anchorage, Alaska**

**Larry Persily, Federal Coordinator**  
**Alaska Natural Gas Transportation Projects**

Thank you for the invitation, the introduction and the microphone. I'll be honest. I've met a lot of politicians I didn't like, but I've never met a microphone I didn't love.

Speaking of politics — which is always good dinnertime talk in Alaska, especially these days — I hear a lot of people yell (and tweet) about how we need to return America to the good old days, when anything was possible with just hard work and traditional values.

When the possibilities were endless, and when anyone could run for office just by standing on a street corner and answering to small groups of concerned citizens. Of course, candidates have abandoned the cold and wet street corners — and the small crowds — and now use Fox News, where they can shout to millions, avoid the tough questions and enjoy a cup of tea.

I hear them, but I guess I don't understand. It seems to me the possibilities are pretty amazing just the way they are today.

Where else but in this great country of ours, this great state of ours, could someone who almost flunked out of college in organic chemistry (on a scholarship, no less), who once sold water coolers for a living, who once failed in business, who owns two manual typewriters, whose life is so mundane that an exhaustive FBI check couldn't turn up anything in his closet other than saddle shoes, where else could that person achieve a presidential appointment and unanimous Senate confirmation to manage federal permitting oversight of a \$40 billion construction project?

Makes you feel hopeful doesn't it?

I can tell you the White House knew everything about me when they selected me for the position as federal coordinator. Despite the shoes, the cynicism and my floral ties, I believe they hired me because I've read and analyzed most every report ever produced on the Alaska natural gas line project. I know what hasn't worked in the past 40 years. I know the history, the players, the economics and the politics. And I am fully aware that state politics is just as big a hurdle as the economics.

I didn't take the job because I love summers in Washington or traffic on the Beltway. I signed on to see if we can get this project under way.

An Alaska gas line would be good for the country and good for the state — and good for the producers when market prices finally recover.

The president understands this and supports an Alaska gas line. The White House knows — just as anyone who has been following the market knows — that the nation does not need Alaska gas for the next several years. Supplies are up, prices are down, and customers generally are content.

But as the economy recovers, as demand for gas builds and our nation grows there is no guarantee that affordable Lower 48 gas supplies will meet all our needs into the next decade and beyond — and that is Alaska's opportunity.

As the nation's electrical utilities increasingly turn to clean-burning natural gas, they need to know that gas will be there for decades to come, at prices they can afford. That is Alaska's opportunity.

Alaskans would do well to understand that. There is a real chance for success, and we should be pushing together to make this project a reality.

U.S. gas consumption for electrical generation has increased by 70 percent over the past dozen years. If demand by the nation's power plants continues on that same pace for the next dozen years, by 2021 U.S. utilities will need the gas from three Alaska pipelines to fulfill that growth.

That's on top of all the new gas supplies that will be needed to cover declining production from older, conventional gas plays. And in addition to the gas that will be needed to replace old and inefficient coal-fired power plants that cannot meet the tighter emissions standards that are coming.

Yes, shale gas will meet much of that demand in the years ahead, but shale production will be hard pressed to cover all of it.

Not to mention that shale gas has its own environmental problems. Opposition is growing to hydraulic fracturing used by drillers to break open the shale and release the methane. Many people don't believe it can be done safely, and they are scared for their community water supplies.

They worry what will happen to the 3 million to 5 million gallons of water used in each fracking operation.

Overblown fears? Perhaps. But maybe not. The EPA and state regulators are working to find the answers.

Meanwhile, we all know that public policy decisions are all too often driven by emotions these days, instead of sound research and science.

I expect shale will have trouble in the years ahead meeting all of the nation's demand for gas — a demand that very likely will grow enough to need Alaska gas starting in the next decade. But will Alaska be in the game, or sitting on the sidelines, complaining that no one loves us enough?

This is about what makes business sense. The Alaska project can succeed if it can deliver gas to power plants, local gas utilities, manufacturers and other customers at competitive prices — not a penny more.

The Alaska pipeline would feed into a spider web of lines spreading across North America, serving the largest gas market in the world — consuming almost 10 times as much gas on an average day as either Japan or China.

Before I get too cranked up, I want to acknowledge the several hundred U.S. and Canadian federal, state, provincial and territorial agency personnel who are working hard to prepare for the construction permit applications that we all hope will come for the pipeline. And I want to acknowledge the project sponsors and their contractors who are gathering information for those permits.

I don't expect that disputed permits will stop this project. Sure, there will be hassles, heated debates, maybe some threats and panicky delays along the way. Probably a few press releases too, with accusations and strongly worded statements. But the project sponsors have permitted a lot of projects, built a lot of pipe over the years. I think they know what they're doing, as do government agencies.

And with all the focus on the Gulf of Mexico well blow-out and California gas line explosion, government regulators are right to closely review every detail, every applicant filing — just as close as Lisa Murkowski's attorneys will be reviewing those write-in ballots.

The real obstacles for the gas line are the natural gas market and the project's economics. Will the market price be high enough after 2020 to cover the cost to produce, treat and move the gas 3,000 miles and more to Lower 48 markets? That's a multibillion-dollar business risk.

The state fiscal structure needs to acknowledge that risk. Our elected officials need to find a fair and workable balance that can earn reasonable state tax dollars while not putting so much of a burden, so much uncertainty on the project that the business decision goes the wrong way.

Politics will not get the gas line built, but politics can hurt its chances of getting built. For too long too many politicians have given us overly optimistic predictions of construction dates, cheap gas for Alaskans, and far higher tax and royalty revenues than are likely from any gas line.

It's time for reality to set in.

The big line to the Lower 48 states would give Alaskans the lowest natural gas prices of any project under consideration.

It would do more than any project to spur new exploration and development on the North Slope. Even with the massive gas reserves at Prudhoe Bay and Point Thomson, a large-diameter line would need new discoveries to keep the pipe full for decades to come. That means billions of dollars in exploration spending and thousands of jobs. And where there is gas, there is oil — and Alaska needs more oil production just as much as it needs a gas line.

It would provide Alaskans with tax and royalty revenues to operate our schools and fix our roads.

But we need to think realistic wealth, not untold wealth. If Alaskans demand to get filthy stinking rich off the gas line, it isn't going to get built. There just isn't that much profit in gas. But if we can accept simply getting rich, it could happen.

Which brings me back to politics. I know Alaskans are frustrated and tired of waiting for something to happen. And some are ready to write a multibillion-dollar check to subsidize a small, uneconomical in-state line from Prudhoe Bay to Fairbanks to Anchorage, a line so small that it would not spur new oil and gas exploration and development, so small that it wouldn't add but a few percentage points to state general fund revenues.

I'd contend that Alaskans should take that same amount of money and walk over to the producers and project sponsors on the big line to North America and see if there is a way to leverage that money or combine the efforts into the best project for everyone.

A pipeline that would draw so much gas off the North Slope that exploration for new fields would have to start almost immediately.

A pipeline that could produce \$1 billion to \$2 billion a year in tax and royalty checks for the state.

A pipeline that could generate its own Alaska spur line for in-state consumers and would come with the lowest tariffs for those in-state deliveries by charging most of the pipeline cost to customers at the southern end of the line.

A pipeline that would help diversify our economy from oil and federal dollars.

A pipeline that would be best for Alaska and the nation.

Sure, some people say the hurdles are too high, that Alaska needs to go build something smaller on its own — even if it requires a state subsidy.

I believe the big line with all its benefits is possible. The mistake would be to give up.

Thank you for listening.