ALASKA NATURAL GAS
TRANSPORTATION PROJECTS
OFFICE OF THE FEDERAL COORDINATOR

Alaska's Fiscal Future

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Sometimes I think of myself as the federal version of the Maytag repairman, waiting for the phone to ring. For him, it was a washing machine. For me, a gas pipeline.

I'll get to the gas line — I promise — but first I want to talk about Alaska's lack of fiscal reality, for unless we accept reality I believe there will be no large-volume gas pipeline.

I'll ask the bankers in the audience: Would you invest in a business, or a community, that had no plan — other than hope — to pay its bills in the next decade and beyond?

What do most Alaskans think as they look toward the state's fiscal future and toward state- and municipally supported public services in the decades ahead?

Certainly, they see a role for the Alaska Permanent Fund, though I believe most see the fund's sole purpose as paying dividends. The original notion of the fund as a savings account for the days of declining oil revenues seems to have gone the way of issue-oriented presidential campaigns and quality TV journalism.

Just how do we, as a state of 720,000 people, plan to pay for schools and school buses, roads, police and fire services, libraries, courts, jails, the Pioneer Homes, fish hatcheries, state grants for wind turbines, state aid for LNG trucking operations and storage tanks, state funding for state fair grounds and state dollars to help pay for cleaner-burning wood stoves.

It seems to me that Alaska's fiscal plan is to bet on the drill bit and a bit of good fortune in court and Congress.

Sue the federal government over access to oil while betting that companies will spend billions to look for oil — and doubling up the bet that the drill bit strikes oil.

Oh yes, and betting that the price of oil climbs ever higher.

That's not a sustainable or responsible fiscal plan. It's a high-stakes gamble. As they say, don't bet on the horses if you can't afford to lose. We can't afford to take that bet.

Here's a little quiz.

Last fiscal year, oil and gas revenues to the state totaled $10.2 billion. That counts everything, including the money we deposited into the Permanent Fund.

And the No. 2 group of targeted taxpayers after oil? Smokers, at $74 million. Thank you for all your coughing. We appreciate it.

The next four largest tax deposits to the state treasury? Commercial fisheries, mining, motor fuel taxes and alcohol taxes.

You could double those top five and you wouldn't even get to 5% of what we make from oil.

Let's take a special look at Alaska's motor fuel tax. We have the lowest tax in the nation, at 8 cents a gallon. It was 8 cents a gallon in 1961 when East Germany built the Berlin Wall. The wall is gone, and we're still at 8 cents.

You want better roads. Help pay for them.

So I guess we'll just bet on oil — production and prices.

The state needs oil to average $106 a barrel this year to cover spending. Below that and it's break into savings.

We did just that during low oil prices in the 1990s. Production was great, 1.5 million barrels a day, three times what it is today, and yet we ran deficits.

Spending was flat, and still we ran deficits.

For those too young or too new to the state to remember, the legislature drew down $5.5 billion out of savings from 1993 to 2003 as low oil prices contributed to budget deficits reaching as high as $1 billion a year.

We need an oil price today four times higher than what we needed then to balance the budget.

If today's $100-plus prices drop into double digits, our deficit could quickly top $1 billion a year or more, much more.

I'd be the first to say spending can be and needs to be cut. But billions? You'd be left with a community unable to educate, train or house the work force you need to prosper.

OK, maybe we'll just produce more so we can worry less about the price.

The state's official forecast assumes almost half of the oil that will flow through the pipeline in 2021 will be from wells not producing today — under development and under evaluation is how they phrase it.

Talk about a bet on the bit.

I guess we'll bet on Congress opening ANWR, though even if they did any oil flow would be at least a decade away.

We'll bet on Shell and others striking it rich offshore and sending oil through TAPS. But that oil also is a decade or more away. And unless Congress opens up the federal checkbook and votes to share offshore royalties with Alaska, there will be no royalty checks and no production taxes for Alaska from the drilling in the Chukchi and Beaufort seas.

The oil will be good for the pipeline, but won't do much at all to help pay for schools, roads and public services.

Maybe we'll bet on the gas line making us rich.

Maybe.

I'm not trying to be a pessimist. I just believe government should prepare for reality and then let the people enjoy it if things turn out better.

Before I talk about the gas line, I'd like to talk about Alaska's constitution.

They are related.

It's hard to live here and not have heard that the constitution tells us to develop our resources for the maximum benefit of the people. It's the proverbial flag that all candidates wrap themselves in.

Here is what it says in Section 8: "The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people."

OK, no argument there.

But look to the first section of the constitution, the Declaration of Rights that trumps everything else. The first sentence there says: "This constitution is dedicated to the principles … that all persons have corresponding obligations to the people and to the state."

Don't hear much about that "corresponding obligations to the people and to the state" do you?

I didn't think so.

Not always so popular, those obligations to the state.

Not nearly as popular as sharing in the Permanent Fund dividend or talking about the owner state and getting the maximum dollars for our resources.

Funny how we avoid talking about our obligations. We want a prosperous state and a safe community but don't guilt me with that obligation talk. It never won anyone an election.

So just what does all this have to do with the gas line?

I worry about prospects for a gas line because I hear too many Alaskans talk about the construction boom, the tax dollars for the treasury, all those dollars we will count and spend.

The studies that add up the hypothetical, theoretical, mythical public revenues of a gas line do a disservice to the public discussion by creating unreasonably high expectations that are likely to fail.

Create an implausibly high bar and no one will be able to satisfy the public and political demand to jump over it.

If you really want to think about the bar for a gas line, count the decades of affordable energy for Alaskans, putting hundreds of millions of dollars a year back into the pockets of residents.

Count the decades of billions of dollars of investment in oil and gas exploration and production that would accompany a gas line project.

And count the decades of additional oil revenues that would never materialize without a gas line to improve the long-term economics of Alaska North Slope oil and gas investment.

First, we need to accept the fact that the viability of an Alaska North Slope natural gas pipeline — any pipeline, to any market — is marginal when you add up all the risks.

Market demand risks. Gas price risks. Construction cost overrun risks. Delay risks.

If you need any proof, ask the companies that spent maybe $10 billion in the past decade to build and expand LNG import terminals on the U.S. Gulf Coast and U.S. and Canadian East Coast.

NOBODY expected to lose money on those investments.

EVERYBODY figured North America was running out of gas and would buy all the imported LNG exporters could send over.

Just ask Cheniere Energy, one of those import terminal builders — an unused terminal. The company was at risk of default on its debt and its finances looked bleak.

Until it figured out to switch directions and build an LNG export terminal.

It signed up creditworthy buyers for 20 years. It signed a construction contract with Bechtel. It got its FERC license and federal export approval.

And yet, when Standard & Poor's last month rated $3.6 billion in project debt for the export terminal, it gave the bonds a non-investment-grade rating.

Betting wrong on the market has a cost. It hurts.

This is where I link the gas line to fiscal reality to a state fiscal plan and to our constitutional obligations to the state and its residents.

Without realistic expectations, the public will never accept a gas line deal.

The reality is there are a quarter-trillion dollars in LNG export projects under construction, under design, under development in Australia, Papua New Guinea and Canada, all chasing after the same Asia market as Alaska.

Add in a couple hundred billion dollars more in LNG projects on the corporate drawing board in Russia and East Africa, and the competition gets more intense.

And don't forget that analysts figure China has more shale gas potential than the United States, or that China gets half of its imported natural gas by pipeline from Turkmenistan, which has several hundred trillion cubic feet of proved reserves.

Send Alaska gas to North America? Maybe, if power plants continue dumping coal for gas. If shale gas production encounters more environmental regulation and community opposition. Maybe.

Truth is, it doesn't matter where our gas goes. Whatever the market, the reality is Alaska needs a gas line a lot more than the world needs our gas.

So let's find a way to get into the market, a way to get others down the line to pay 90% of the cost while we enjoy the money-saving benefits of taking out what we need from the pipe.

That means scaling back our expectations of direct cash flowing from the line and putting together a financial package that works for the risky project.

That means sharing in the project risk since we will be sharing in the rewards.

That means adopting a long-term fiscal plan for the state that shows investors we are stable, we are willing to help pay our own way, that we know income and expenses have to balance.

The oil companies know they will always be the deep pocket for Alaska. I believe they fear they will always be the only pocket. That makes them cautious — and we don't want that.

It means fulfilling our constitutional obligation to think about the entire state, all of its residents and its future residents.

That means adopting a long-term fiscal plan based on reality. Not a gamble or a dream.

It means we need to talk about using the Permanent Fund as an endowment to help pay for public services, to ease our bet on high oil prices every year.

It means we need to talk about a broad-based tax to capture a share of the economic activity in the state from tourists, non-resident workers and, yes, residents too. There is nothing unconstitutional about chipping in.

A gas line is possible. I really believe that. But possible isn't good enough. With leadership and honesty and reality, we can improve the odds.

Thank you.