

Alaska's Economic Future with a North Slope Natural Gas Pipeline
Public forum - May 10, 2011
University of Alaska Anchorage Fine Arts Building Recital Hall

Larry Persily, Federal Coordinator, Alaska Natural Gas Transportation Projects

Welcome to the second Alaska gas line public forum sponsored by the federal coordinator's office.

What we want to do this evening is talk with Alaskans about the direct and indirect benefits of a big gas line. When the time comes for the state to negotiate fiscal terms for the project, Alaskans should consider all of the pipeline's long-term benefits to our economy.

First, I'd like to introduce this evening's panelists.

There's me, Larry Persily, federal coordinator for the Alaska gas pipeline office.

And then there are the truly qualified panelists:

Scott Goldsmith, from the University of Alaska Anchorage Institute of Social and Economic Research, where he is the resident expert on the state's economy — particularly the role of oil and gas in driving that economy. Scott is principal author of ISER's ongoing Fiscal Policy Papers series, which takes an in-depth look at Alaska's economy.

Also from the university system we have Brian Rogers, chancellor of the Fairbanks campus. He has served as vice president of finance for the university system, as a state legislator, and founded Information Insights, one of the state's leading economic and public policy consulting firms. Brian holds a master's degree in public administration from Harvard.

Bill Van Dyke has 35 years experience in the oil and gas industry, 25 years with the Division of Oil and Gas at the Alaska Department of Natural Resources where his work included statewide leasing and resource evaluation. A petroleum engineer now working for Petrotechnical Resources Alaska, Bill is well versed in how to best manage oil and gas reservoirs.

A few instructions before we start:

In addition to the audience here in Anchorage, we have webstream viewing sites in Fairbanks, Kenai, Juneau, Kodiak and Wasilla. The forum also will be available on our website tomorrow, and will be broadcast statewide on Gavel to Gavel Friday, Sunday and Monday, May 13, 15 and 16.

We'll take questions after the presentations. But don't hold them that long. If you're with us in Anchorage, please write them out, hold them up and someone from our office will pick them up to bring to the stage. If you need paper and pen, raise your hand and we'll get them to you.

If you're watching from Fairbanks, please hand your questions to Deputy Federal Coordinator Frank Richards, who is in attendance.

If you're watching via the live web stream, there is a link on the website for you to send in your questions electronically.

We'll answer as many as we can after the presentations, and we'll try to answer more of them in the next week and post the answers on our website arcticgas.gov.

If you are following along via webcast and would like copies of the presentations, they and the hand-outs we distributed at the forum can be found on our website.

And please turn off your cell phone, iPhone or whatever.

With that ...

Alaskans have long wanted a big natural gas pipeline to create jobs, spur economic development and provide low-cost gas for heat and electricity.

Alaskans thought this time, maybe, it was real. Then drillers discovered how to get natural gas out of shale rock, knocking down Lower 48 gas prices to Wal-Mart levels while Alaskans were hoping to get Nordstrom prices for the gas.

Alaskans are frustrated at the lack of visible progress on the pipeline, growing ever more impatient. Many are abandoning hope in the big line and embracing an alternative to more quickly meet in-state gas needs.

The supposed certainty of schedule that comes with the state paying much of the cost for a small, in-state pipeline seems to interest many Alaskans who say they cannot afford to wait for Lower 48 gas markets to recover and for North Slope producers to decide when the time is right for the big line.

Meanwhile, Fairbanks residents cannot afford their winter heating bills, Anchorage and Matanuska Valley residents worry about their long-term gas supplies, Kenai Peninsula residents watch as their industrial jobs leave town, and rural Alaskans shake their heads — for they have known the burden of high energy costs far longer than anyone else.

But before giving up on a big line and subsidizing a much smaller line, Alaskans need to consider all the benefits of a big line. The decision on state fiscal participation in a gas line — large or small — should be based on total benefits to the state and its residents, direct and indirect. What is best for Alaska, long term.

In addition to tax and royalty checks to the state treasury, Alaskans should consider how much they need the big gas pipeline to help keep oil flowing in TAPS, to attract the billions of dollars

of oil and gas investment needed in the state, to promote job growth, to maintain a strong economy

Tonight's hand-out on oil production and prices shows how high oil prices have saved Alaska from falling production. Is that what we want to gamble on for our future?

Lower energy costs from a state-subsidized gas line cannot solve everything if the economy is weak, investments are in short supply and jobs are in decline.

What we want to do this evening is illustrate for Alaskans the direct and indirect benefits of a big gas line.

The tax and royalty revenue from a big line serving Alaska and the Lower 48 could be **seven times** the revenue from a small in-state line as currently proposed.

And although the state likely will need to negotiate fiscal terms to help improve the economic viability of the \$40 billion pipeline, you're still looking at tens of billions of dollars over the life of the project for the state treasury and Permanent Fund.

But it's much more than natural gas dollars for schools, roads, communities and Permanent Fund dividends. It's about the oil that has supported our economy since Prudhoe Bay went into business in 1977.

The oil line today is operating two-thirds empty. The state Department of Revenue estimates it will be almost three-quarters empty by 2020 – and half of that total is dependent on projects under development or still on the drawing board.

Without billions of dollars in new investment, the longevity of the oil line is in serious question. Alaska's cash cow will be hard pressed to continue feeding the entire state on its own, as it has for more than 30 years.

A large gas line would improve Alaska's chances of attracting those investment dollars if explorers can profit from both oil and gas. It would turn gas from a potential liability into a profit potential for the years ahead.

A big line would draw so much gas off the North Slope that companies would have to spend billions to find new reserves to keep the line full to cover the mortgage. That's an incentive a small line just would not create.

One other key benefit from a big line would be lower-cost energy for Alaskans.

Federal and state laws require what are called mileage-based tariffs, meaning Alaska customers would pay only for the small proportion of the pipe they use and only for the prorated share of the gas they move through the line. All of which means Alaskans could move gas down the big line for under \$1 per thousand cubic feet.

You would still need to add the cost of distribution through a spur line to Fairbanks and Southcentral, but gas coming off a big line would cost less than gas coming out of a small in-state line. It's just the law of economies of scale.

So while we wait for the commercial negotiations that are under way between pipeline developers and potential shippers, the Office of Federal Coordinator thought it would be useful to get Alaskans thinking about how to measure the benefits of a big line.

Though both project teams missed their own timelines for negotiating deals after the close of last year's open season, the talks continue.

And while those commercial negotiations are under way, Alaskans need to consider what the state could do to improve the economics of the big line. The project means too much to Alaska's future.

With that, I will turn it over to our panelists.