



Alaska's natural gas: Does any country need it?

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Natural gas burns the same pretty much the world over. About 1 million Btu per 1,000 cubic feet. Too rich and your stove will blow up. Too lean and your tofu won't brown as nicely.

No one really cares where the gas comes from as long as it's there when they turn on the burner. Unlike salmon, Alaska's gas smells and cooks the same as Russian gas, or Qatari gas, or Australian gas. Or U.S. shale gas.

That leaves Alaska with a dilemma. We have gobs of a commodity the world uses every day. And the world is using more of it. But our gas is the farthest from market and probably costs the most to move to market. I'm talking total cost from the wellhead to the burner tip, not just the shipboard expense for delivering gas across the ocean to Japan.

That cost is what has kept Alaska's gas from leaving the North Slope for almost 40 years. You would have lost money on every molecule of gas you moved to the Lower 48 or overseas during the past decades. Market prices were far too low to cover the costs — forget about any profit and taxes.

But it's been OK. The gas has been used to keep up the pressure on the oil, forcing more of the make-us-rich liquid out of the ground. All that repressurization has been extremely valuable to Alaskans — think state capital budgets, the Permanent Fund and budget surpluses of the past decade.

Besides, the Alaska Oil and Gas Conservation Commission likely would have said no to selling all that gas and reducing oil recovery.

But now it's time to divert some of that gas into a pipeline to ship to customers, somewhere, anywhere. The older North Slope fields are producing much more water and gas than oil as they age; the equipment to process and reinject all that gas is maxed out; and we'd be a lot more attractive as an investment opportunity for oil and gas companies if they could sell their gas along with the oil.

Especially for Shell. Spending perhaps several tens of billions of dollars to develop offshore fields would look a lot better if the natural gas could someday turn a profit, too.

I assert it is time Alaska got into the gas business.

But who wants our gas? More to the point, who is willing to sign binding, take-or-pay, long-term contracts to buy our gas. Contracts that are required before anyone will loan money on the project.

You may build a duplex on speculation, without having the units presold, but no one is going to loan you money to build the most expensive energy project in North American history unless you have paying customers under contract.

The laws of finance apply whether you want to send the molecules to Asia or to the Lower 48. Companies — even rich oil companies — have limited capital dollars to spend and select the best investment opportunities.

The argument in Alaska shouldn't be about whether it's our gas, or what the constitution says about maximizing development of our resources for the people. Or whether Canada will steal or tax our gas. Or whether it should be a big line, a small line, a bee line to the coast, a straight line to Fairbanks, or, worse yet, a pandering line in a campaign speech.

That assumes Alaskans can dictate what gets built and when, which is possible only if we are willing to pay the bill for a project without customers.

The debate should be how much does the state and its residents need and want the gas line, and what are we willing to do to get someone else to write the checks and take the risk.

First, Alaskans need to accept that we need a gas line. For the decades of affordable fuel for ourselves; natural gas for Railbelt communities and propane for everyone else. For the jobs and tens of billions of dollars in investment it would bring. For the additional barrels of oil that would accompany all that new exploration and production.

And, after all those good things, some tax and royalty dollars, too. Not nearly as much as oil, but a thick icing on the cake when you add it to the sweetness of gas for local needs, jobs, investment and oil dollars – and extending the life of the trans-Alaska oil pipeline.

Second, Alaskans need to accept that natural gas is a commodity, just like corn, soybeans and frozen orange juice. Buyers want the cheapest supply they can find. And they can get it, especially when the market is oversupplied and there is a lot of competition among sellers.

And with that, I'll move to today's advertised topic: "Marketing Alaska's Gas on World Markets."

Or, "How to Sell Your Goods When You Want a Nordstrom Price in a WalMart World."

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