

## State subsidies won't speed gas line

GREGG ERICKSON  
COMMENT

*(Published: January 14, 2007)*

It may be time for Alaskans to consider the possibility that there is only a slim chance that North Slope natural gas will get to market anytime soon. It would be nice to blame this on former Gov. Frank Murkowski, but rising construction costs and ballooning risks would have probably sunk the Murkowski-backed pipeline even if he could have persuaded the Legislature to accept the deal he made with the three major producers holding the bulk of the North Slope's discovered gas.

That deal involved a mega-project that would have required as much five million tons of steel. Marianne Kah, chief economist for Conoco Phillips, one of the three producers, told an October meeting of Anchorage energy economists that recent "hyperinflation" in steel prices raised serious issues for the feasibility of the project. She recited a list of other emerging problems, including "demand destruction" - permanent cutbacks in natural gas demand due to persistent high prices and competition from alternative fuels.

Murkowski offered the producers a 30-to-45 year tax holiday and other concessions of state sovereignty. The best he could get from them in return was a promise to give the project serious study. He accepted that deal and tried to push it through the Legislature. To the horror of the producers, lawmakers passed an oil tax increase designed to make the long tax holiday more palatable but balked at swallowing the rest of the plan.

During her gubernatorial campaign, Sarah Palin, Murkowski's successor, pledged to push for "a law of general application" to replace the Stranded Gas Act, the state law Murkowski used to negotiate his deal. The "general application" phrase comes from the Alaska Constitution: "The legislature shall pass no local or special act if a general act can be made applicable." The Alaska Supreme Court has never opined on whether the Stranded Gas Act is a "special law," but Palin seems to think it unduly favors the three large producers over other potential project sponsors.

Later this week Palin will announce her North Slope strategy. How she intends to level the playing field will be of acute concern to every potential player, including smaller producers like Anadarko, pipeline companies such as Trans-Canada that would like to play a role in the project, and homegrown interests pushing plans to bring North Slope gas into Southcentral Alaska. Details are bound to be controversial.

A key obstacle to leveling the playing field for North Slope gas is that the major producers have the gas reserves locked up. Their interest is in producing the gas when it becomes most profitable; that can be a long time after it becomes economic. Even feasible projects sponsored by other companies can be, and some say are already being, stymied by the refusal of companies with reserves to sell them the gas.

The gas reserves tax initiative voters rejected in November would have been a step toward getting the state involved in controlling the market power of the producers, but it isn't the only approach. The state's decision to move against Exxon Mobil and others that have warehoused gas in the North Slope's Point Thomson field is a step in the right direction.

The other key issue is how much subsidy Alaskans are willing to put up to gain the politically popular jobs and access to low- cost energy that citizens have been conditioned to believe the project will bring. Proposed subsidies range from givebacks of royalty and taxes to making Permanent Fund money available to help finance the project.

Like most economists, I consider such subsidies a mistake and point to the long history of belly-up Alaska projects, ranging from barley farms to seafood-processing plants, where state giveaways failed to produce a fraction of the promised benefits. Far better for the state to declare a no-subsidy policy and promise that any company or consortium willing to put its own money behind a no-subsidy project will have the state's unstinting help in gaining access to the gas.

Will this work to jump-start a pipeline? Probably not right away. That's why it would be a good idea for the state and its voters to adopt a third policy regarding its gas resources -- a policy of patience.

---

Juneau economic consultant Gregg Erickson is co-editor of the Alaska Budget Report, a newsletter covering the state budget and economy. E-mail, [gerickso@alaska.com](mailto:gerickso@alaska.com).

Print Page

Close Window

**Copyright © 2007 The Anchorage Daily News (www.adn.com)**