Legislators face critical fight over gas

GREGG ERICKSON
COMMENT

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The North Slope oil producers that control most of the Slope's natural gas were unfailingly polite, but the message they delivered to legislators was clear: They don't like Gov. Sarah Palin's proposed Alaska Gasline Inducement Act, don't intend to compete for the "inducements" it purports to offer, and see no reason to commit their gas -- and their credit -- to a project they don't control.

The mystery to the producers is why Alaskans would expect them to do otherwise.

To finance a North Slope gas project, as Exxon Mobil's Marty Massey explained to legislators last month, potential shippers must make firm transportation commitments -- binding obligations to pay for a share of the pipeline's capacity regardless of whether the shipper transports the gas and regardless of the price the gas brings.

Conoco Phillips' Wendy King noted that a firm transportation commitment on just a quarter of the gas to fill the envisioned mega-pipeline would obligate her company to pay more than $1 billion a year for 20 years. If natural gas prices plummet or the field has delivery problems, tough luck. In an economic environment of hyperinflation in steel prices and soaring costs of construction labor, who besides the producers would have the financial strength to back those commitments?

In addition to underestimating the economic risks the producers face in trying to get a commercialization project under way, the companies can't understand why many Alaskans seem blind to the key power relationship.

If the expected profits from this project don't measure up to the companies' lofty requirements, it costs them nothing to wait. State leaders, in sharp contrast, face urgent political imperatives to get a project under way as quickly as possible. That means Alaska needs the producers' cooperation on this project far more than the producers need Alaska, and the companies can't understand why people in Alaska don't grasp that obvious power relationship.

Does this view accurately reflect the real politik of Alaska gas? The Murkowski administration thought so, and in that light tried to satisfy the pipeline-now political imperative by putting on the block everything the state had to give, and then some. That didn't work for two reasons: Everything was too much for the Legislature to swallow, and not enough to get the producers to promise a pipeline.

If giving the producers everything they wanted wasn't sufficient, then the only remaining strategy for the state is to change the power relationship. That's not as dubious a proposition as industry minions in politics and the press might like us to believe.

A major part of the producers' power advantage depends on their control of the gas. The effort by the state to reclaim leases at the undeveloped Point Thomson field would, if successful, certainly change the power relationship in the state's favor. So would a natural gas reserves tax of the sort that failed to win voter approval when it appeared on last November's ballot as a citizens initiative.

And so might AGIA. If the state-promised inducements under AGIA to push a pipeline project to federal certification, the producers would find themselves under great legal and political pressure to commit their gas or risk losing it for failure to comply with the provisions in their North Slope leases requiring diligent development. That's the real reason the producers oppose Palin's plan.

"It strikes me that the whole philosophical approach to AGIA is that we swap the unknown of time for a finite amount of time, we seed that with our money, an unspecified amount not to exceed $500 million, and then we wait and see whether the producers are good-faith partners or whether the state has a deeper problem," said Fairbanks Rep. Jay Ramras at a recent House committee meeting.

"I think it is an accurate description," responded Patrick Galvin, Palin's commissioner of revenue.

But AGIA can't put any pressure on the producers if legislators remove the inducements Palin hopes will attract a credible project sponsor or if they strip the requirement that the winner of the AGIA license push all the way to federal certification. Over these issues, over the next five weeks, will be fought the most critical political battles of this session.

Gregg Erickson is a Juneau economic consultant and editor at large of the Alaska Budget Report, a newsletter covering the state budget and economy. He can be contacted at gerickso@alaska.com.