

ALASKA STATE LEGISLATURE

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SENATOR BERT K. STEDMAN

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Senator Stedman Votes No on Gasline Bill

(Juneau) – Today, Senator Bert Stedman, R-Sitka, voted against Senate Bill 138, the Governor’s proposed Liquefied Natural Gas Pipeline Project. In explanation of his vote, Senator Stedman issued the following statement:

My vote against SB 138 was not a vote against a natural gas pipeline. Like most Alaskans, I support the construction of a pipeline to get our natural gas to market. My vote was a statement against the fiscal structure in the bill and the misalignment for the state. I’m encouraged that we’re closer to the reality of a gas pipeline than we’ve ever been because of the alignment of interests between ExxonMobil, BP and ConocoPhillips. But my objection comes from the fact that the state’s interests as a sovereign are not in alignment with the inclusion of TransCanada owning the state’s share of the pipeline and gas treatment plant.

Beyond any doubt, this gasline will be the largest financial commitment in the history of the state. There are many troubling risks to the state from this megaproject including: low gas prices due to a potential oversupply from competing international projects under development; the state’s lack of expertise and ability to market its share of the gas received in lieu of royalties and taxes; and handing over the state’s ownership share of the pipeline and gas treatment plant to TransCanada. The last point is what gives me the most indigestion.

Make no mistake; the producing companies (ExxonMobil, BP, and ConocoPhillips) and not the state are in control of moving this pipeline project forward. TransCanada is a pipeline company but who actually builds this pipeline will be decided by ExxonMobil with concurrence from BP and ConocoPhillips. TransCanada is simply acting as our lender to cover the upfront project costs at a guaranteed rate of return through construction. The deal looks like this: TransCanada will hold an ownership interest in the gas treatment plant and the pipeline equal to the state’s estimated 25% share of the gas; the state would have a one-time option to buy back up to a 40% of its ownership interest from TransCanada so long as TransCanada’s share doesn’t fall below 14% leaving the state with only an 11% ownership interest. Furthermore, regardless of whether the state exercises its option to buy an ownership interest from TransCanada, we are obligated to pay TransCanada’s development costs plus an interest rate of 7.1% if the project is not sanctioned.

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The state entered into an agreement like this with TransCanada once before when the legislature passed the Alaska Gasline Inducement Act (AGIA) in 2007. That law guaranteed the state would reimburse TransCanada up to \$500 million for costs incurred related to the development of a large diameter gas pipeline through Canada. Today, most legislators would agree that tying ourselves to TransCanada through AGIA was a mistake. I'm concerned that we didn't learn our lesson and we're making the same mistake again but instead of a \$500 million mistake, this could turn out to be a multi-billion dollar mistake.

I'm uncomfortable supporting this proposed commercial arrangement that doesn't align the state's interests with ExxonMobil, BP and ConocoPhillips. These companies will see to it that this project is profitable for them or they won't proceed. Similarly, TransCanada is guaranteed to make a handsome profit. Unfortunately it looks to me like the state of Alaska as a sovereign and the owner of the oil and gas resource is assuming the most exposure and risk. Making a bad situation worse, reduced revenue from oil taxes will result in year after year deficit spending to balance our budget, depleting our savings accounts around the same time pipeline construction will begin.

One of our own legislative consultants hired by the Legislative Budget and Audit Committee warned, "In its totality, however, the proposal will result in a radical departure from the State's historical position and role as a Sovereign, as a Royalty Owner, as a Taxation Authority and as a Regulator which raises a number of issues and presents substantial risks."

A sole source, non-competitive bid resulting in a multi-generational contract with TransCanada is not in the state's best interest. In my opinion, the Legislature should put SB 138 on the shelf and work on it over the interim. We have the time and the obligation to do it right.

For more information, contact Senator Stedman at 907-465-3873.