

## **There are times to look a gift horse in the mouth.**

I recently listened to a very informative presentation by Jomo Stuart with IGU. If you haven't heard it, it is on the web from FEDC. There is also a slide presentation.

This has got to be one of the more interesting projects our State has ever waded into. It started when Governor Parnell introduced a bill to provide a few hundred million \$ of State money to build a state sponsored natural gas company in Fairbanks. The thought being that a State owned gas company would lower the homeowners gas cost from the existing gas company that was selling gas for the highest price in the nation, \$23/MMbtu and the other homeowners on oil that was about \$26/MMbtu.

Governor Parnell lost his re-election bid when the candidate that he defeated in the primary beat him in the general. Only in Alaska! Our new Governor told the Fairbanks folks to standby, he had a solution. His solution was not an original idea for him. He and his new Chief of Staff had together previously tried to buy FNG when the Chief of Staff was the head of another group trying to build the pipeline and the new Governor was his lawyer. Together they drove the State to buy the local gas company for an astounding \$53 Million. The company had recently lost its bid at the RCA to expand its service area and worse, the RCA gave the service area to another new company owned by the FNSB. The prospects for FNG were looking pretty dim since it lost its growth potential and the people of the Borough elected to start their own gas company. The purchase of the company has to be one of the most opaque transactions ever. Some folks wondered why the State's attorney General didn't investigate the purchase, but once they realized the Attorney General was the Governor's law partner, well, what's the point.

Once the Governor had purchased the company he needed a place to put it. AIDEA was the answer. AIDEA also had charge of the State's allocation from the Parnell administration but that didn't provide for the purchase of FNG. AIDEA didn't want FNG at the inflated price but they were stuck with it. They needed to find a way to get rid of the hot potato. This is where IGU comes in. Since AIDEA has the money that was ear marked to help Fairbanks get cheap gas, they have flat told IGU that in order to get the money that they were allocated by Parnell and the legislature, they would have to buy FNG at the inflated price to get it off of AIDEA's books without a loss.

It's a shame that in order for Fairbanks to finally get its due, we have to accept such a huge liability. There has been absolutely no accountability in this matter. Even after the State spent the \$53 Million, the price of gas only came down a very small fraction. And when you divide the meager savings into the purchase price, it looks criminal. Now the wrong doers are trying to blend in their mistake into a larger package to dilute their damage.

If the above history isn't enough to turn your stomach, hang on, it gets worse. AIDEA, in an effort to do what the original Parnell proposal said to do (build an LNG plant in Prudhoe Bay) set about trying to select a company to do this. They took forever and all they managed to do was waste a lot of money and alienate the folks at GVEA which really are the best representatives of Fairbanks when it comes to energy matters. Of course there are some open wounds there if you have been around long enough to remember the Healy Clean Coal project.

But before things settled down, the new defeated but elected Governor pushed an amendment to the original deal through the legislature. Instead of directing the gas supply to come from the infinite supply

in Prudhoe Bay, in a nod to the Cook Inlet producers, he “opened it up” for other options in addition to the North Slope.

All AIDEA needed to do next was to get a cheap gas supply from the Cook Inlet. The cheap gas supply is right next to the unicorn. After 2 years of AIDEA’s folks trying to get the magical cheap supply they have apparently secured gas for \$7.72/MMBtu to supply the LNG plant they want FNG to build next the existing plant. In order for the Cook Inlet supply to be competitive with the North Slope gas, it needed to be closer to \$3, not \$8. Interestingly, \$7.72 is the highest price gas in North America and is as high as it can be according to a consent decree the producer Hilcorp entered into with the State when they bought the field. What was really surprising in IGU’s presentation last week is that in spite of AIDEA’s failure to get the cheap gas supply, they are proceeding to build the plant at Cook Inlet. Now this is the “King has no clothes” moment for Alaska. As I understand it, no one, nowhere, has ever built an LNG plant supplied by \$8 gas. And the contract is only for 3 years. Nobody builds a plant with only a 3 year supply. Someone needs to do a better job of explaining why they think it’s a good idea to build an LNG plant next to the most expensive gas in the world. It’s obvious that Hilcorp will benefit greatly for the deal. Gas that they can’t sell into Anchorage, they will sell for a higher price to Fairbanks. But get this, when you read the contract with Hilcorp that is posted on AIDEA’s website, Anchorage has first call on the gas, so Fairbanks is on the wrong end of the straw again.

The slides in the presentation showed a budget price of \$43 Million for the new LNG plant to be built in next to the old one in Pt. McKenzie, that is supplied with the \$8 gas (more than \$8 when transportation is included). If history comes anywhere near repeating itself, the plant will cost more than \$43 Million. Also it appears that the AIDEA/FNG team will build it themselves. So now we have the government built in efficiency to factor into the price, because they can do it cheaper.... Let’s round it off to \$50 Million.

So according to the IGU presenter, the result from accepting the deal from AIDEA for the cheap money, but the expensive FNG price, also has to come with an LNG plant built in the wrong spot because the Governor want to patronize the Cook Inlet producers at Anchorage’s and Fairbanks’ expense. If no one stops this nonsense the folks in Fairbanks will be the proud owners of the biggest polished turd in the state.

As Fairbanksans, we can’t afford this deal. Don’t take the cheap money with the higher priced add ons and let’s surely have nothing to do with building a plant in the wrong spot. But make no mistake about it, we didn’t get the benefits intended from the State’s funds that we should have. The former owners of FNG got a lot of benefit and the Cook Inlet producers are about to get a lot of benefit next. And a lot of employees at AIDEA have extended their job by dragging things out.

There is a distinct lack of leadership in Fairbanks. It’s time for our elected leaders to step up and put a stop to this runaway train. Everyone should call the IGU board and tell them to reject the FNG purchase and tell AIDEA to give them the money the legislature approved and let IGU build the plant where ever the cheapest gas supply is. Be patient and buy FNG later, like we GVEA did with Healy Clean Coal project.

And whatever we do, we need to think real hard next time we are in the voting booth.