

February 21, 2015

To: The Honorable Senator Giessel
Chair of the Alaska Senate Resources Committee

Thank you for your extremely well written commentary in the Alaska Dispatch News today. Read in conjunction with Governor Walker's earlier commentary I think that each of you make points that Alaskans should ponder as we evaluate the status and direction of potential projects developing our very abundant natural gas resources.

While I heard you say on talk radio yesterday that Alaska did not own any gas, I hope you would agree that since the Legislature has by law set in motion the process for the State to become an owner in either of the two gas line projects, that it is important that Alaskan's are comfortable with the Legislature's ultimate investment decision. Based on their public statements the House seems very set in their decision already, so I am hoping that the Senate will encourage discussion, rather than suppressing any variation of thought.

I start with the decision process that each of our potential partners will go through before committing to a decade of several tens of billions of dollars investing in North Slope and Cook Inlet facilities, a large diameter pipeline, and potential a fleet of tankers to service the foreign markets.

The largest North Slope gas lease holders (BP, Exxon, & Conoco) will at each phase of project advancement carry this decision up the corporate chain to their individual Boards of Directors. Committing a decade worth of such a large fraction of the corporate cash flow to a singular project that will offer no return until entirely complete a decade later, assures that there will be full vetting and healthy debates of risks, rewards, alternatives, threats, and uncertainties at the highest level. The corporate commitment to the AK LNG project will be revisited several times over the next few years by each of the three producer's Board's with a fresh exam each time. If any one of the companies falter, the project will stop. The fact that the companies are working together is very encouraging, but the over-riding reality is that each

will decide and act in their own interest, based on their own opportunities for corporate success. While the companies' criteria of project success are different than those of Alaska, they are very good at these decisions and Alaska would be wise to follow the lead of the Houston board rooms if at any point they turn away from this mega-project approach.

In a similar way, the State's decision on the AK LNG project lies with the Alaska Legislature, because of its unique power of appropriation granted under the Constitution. The State's board room isn't in the Governor's office, it's either end of the Alaska Capitol building's second floor under the shared leadership of the President of the Senate and the Speaker of the House. Senator, you and your colleagues are the deciders of whether the AK LNG project goes forward with Alaskan investment and how much investment. To the Legislature's credit much has been done to educate the deciders and to a degree the public, but much more will be required as the seriousness of these decisions elevate. A lot more can and should be done by the Legislature to assure the broadest public consensus on goals, success factors, alternatives, and opportunities.

By way of example, the decision by the State to take its royalty gas in-kind or in-value affects every aspect of potential State participation in the AK LNG project and the long term fiscal health of Alaskans. Alaska's history is ripe with past dismal failures on the taking in-kind decision and in recognition of that prior Legislatures created a Royalty Board to provide for full public vetting of any recommendation on royalty disposition coming to the Legislature from the Commissioner of Natural Resources. I am unable to find the record of that public review in this case and I have not heard the appropriate dissatisfaction of the Legislature for the failure of the past administration to utilize that existing vehicle. Many thinking Alaskans don't feel that deciding to take royalty oil in-kind and investing in the AK LNG project can be justified on the basis of "the producers want us to".

Finally, to my view of the Governor's role in the North Slope gas project decisions. Governor Walker has clearly deviated from the past administration by being both a leader and an advocate. That sounds like a CEO to me. Success for Alaska can't be achieved by reaching a flawed "deal" to advance. I don't know if the Governor is right that the AK LNG deal on the table is fatally flawed or whether it has some problems easily

corrected, but I am glad that he has spoken out about his concerns. If thoughtful challenge, rather than blind allegiance, is dangerous enough to drive off the “partners”, then so be it. The Governor (CEO) has the responsibility to execute and implement actions in the best interest of the State, and I haven’t seen anything that bothers me in that regard. The Governor of Alaska is really a CEO Plus since he has the power of the red line through the budget items and we are yet to see how Governor Walker exercises this power. It certainly is within his authority, and if necessary, I hope he will act to prevent the State making a devastating mistake.

The Legislature in several public statements has expressed its concern with Governor Walker’s replacement of 3 members of the AGDC Board of Directors. I personally knew the 3 members lost to the State’s service and have great respect for them individually as experienced contributors. Certainly the two members with strong industry backgrounds are amongst the top dozen most experienced pipeline project management people available in Alaska. I also know and commend the 3 AGDC Board nominees recently put forward as “good decision makers”. AGDC’s role as a public corporation of the State is not to decide if Alaska should risk tens of billions of dollars of public money on the AK LNG project, but to assure that the best technical, project, business, and market information is available to the Legislature for consideration in their decision. I believe that the AGDC Board as reconstituted is capable of directing the AGDC executives, staff, and consultants to do that.

Finally, Legislative concern over the Governor’s statement on examining the premise of the Alaska Stand Alone Pipeline (ASAP) project seems to miss the point. Many have been concerned that ASAP as created in detail by the Legislature ignored all of several alternative projects with benefits and virtues potentially exceeding ASAP. In defining the State’s fallback position from the producer controlled mega-project AK LNG the State as a matter of prudence should have more than one Plan B under development and active consideration. If AGDC as a public corporation remains unable to handle more than one thought at a time, the Legislature can contract with a strong private sector company to evaluate a variety of options without confusing the thrust towards the AK LNG project.