



# 49 North

Alaskans want a prosperous  
future and a diversified  
economy. A natural gas pipeline  
could be key to getting both.  
But it could be costly.

Northerners on both sides of the border want much the same things - to preserve unique lifestyles and cultures while creating a prosperous future for themselves and their children. How they pursue their goals reflects their values, wisdom and competence.

This past winter, the government of the Northwest Territories, Mackenzie Delta Producers and Aboriginal Pipeline Group have moved impressively toward their goal of commercializing Delta gas, a process that continues this spring with a series of community consultations, technical and financial planning. Canada's federal government has remained neutral as to the routing of Alaska gas, but it has contributed to general gas pipeline momentum by respecting the various route advocates and creating a draft "Cooperation Plan" to facilitate multi-agency regulatory coordination for future projects.

While Canada's gas pipeline story is still a work in progress, the players have worked hard to identify common objectives. The goal



Facilities at the Alpine field. Photo, courtesy of Phillips Petroleum.

is within view. Perhaps oversimplifying, one perceives they grasp the significance of protecting lifestyles while permitting the private sector to create wealth for itself, the federal and local governments, aboriginal enterprises and the public. Bumps in the road for Canada are posed by the advocacy for what is claimed to be a more efficient Alaska gas pipeline northern route. (also called the "over-the-top" route.) Whereas northern constituencies might find the economies of scale could benefit the transportation and the value of Delta gas, financing methodologies pose controversy to pipeline companies, producers, governments and First Nations. Even if other northern route financing and technical challenges could be accommodated, an even bigger bump is posed by the unified Alaska political opposition to a northern route.

Which brings us to Alaska's challenges. Neighboring Alaska has a rocky road ahead in 2002, arising from several problems:



BY DAVE HARBOUR

## OPINION

**Fiscal crisis:** Over 10 years ago, business and academic leaders repeatedly warned the state government that Prudhoe Bay's expected production decline would produce a financial crisis by now. Warnings were ignored, spending skipped on uninterrupted, and prediction has become reality. The state, about 80 percent dependent on oil and gas revenue, has half the oil production it did in the 1970s. It is spending about \$1 billion/year more than it takes in and its savings accounts to fund the shortfalls will be depleted in two years. The size and cost of its state government have grown steadily, with few cuts.

Citizens unfamiliar with economic reality have pressured their elected leaders into exacerbating oil dependency by avoiding levying state taxes on citizens. Annual permanent fund checks are paid to citizens out of a \$25 billion account, the income from which could finance government at current levels were voters willing to sacrifice the annual bonus payment exceeding \$1500 per person. Senior citizens are given an exemption on local property taxes. Villages are given state funded, state-of-art schools and subsidies for fuel expenses on top of federal programs.

The list of state-funded largesse is lengthy. By March 1, Alaskan politicians were decrying the revenue shortfall while avoiding significant cuts in spending, dismissing use of the permanent fund and discussing the imposition of a 'gas reserves tax' and increased production taxes on the oil industry. This, ironically, would increase dependency on oil while discouraging future oil investment. Other minor taxes on income, sales, liquor and tourism are on the table but would offer relatively little remedy, if the doses were moderate.

**Gas pipeline:** Understanding Alaska's fiscal crisis leads to the gas pipeline big picture, for an Alaskan gas project could fund between one-quarter and one-half of Alaska's deficit. If a gas project is delayed by political considerations, history will show that taxes on Alaska's children were further increased and services further reduced at least, in part, due to the inability of state leaders to support industry's creation of a feasible project. In spite of that economic reality, the politically popular position is: "build the gas pipeline my way or we'll keep the gas in the ground."

It's an all or nothing bluff. If a preferred liquefied natural gas or Alaska Highway project is built, politicians will have succeeded in attracting the biggest possible construction boom and would also provide local access to gas. If a less efficient project is created, political goals may see short-term success at the expense of long-term revenues. If a more efficient project and route are built, state coffers could enjoy higher returns from taxes and royalties, the boom might require less costly state services but it would be less visible to all-important voters, less "politically correct." *Continued on Page 26.*





*The oil sales line from the Alpine production facilities with an oil-spill prevention loop. Aaron Weaver photo, courtesy Phillips Petroleum.*

**The American political process:** Entangled in such angst, Alaska politicians – even the conservative cadre – are not leaving gas pipeline development decisions with private enterprise but are working hard to create governmental solutions.

Federally, last summer, the House of Representatives passed President George W. Bush's energy plan in the form of H. R. 4 that included support for Arctic National Wildlife Refuge (ANWR) development but added a provision that would prohibit a northern route for Alaska's gas.

In October, the Senate energy committee heard conflicting testimony from Alaska gas stakeholders, leaving the panel confused. Senate leader Tom Daschle produced his own energy bill, going around the committee. As this is written, the Senate is debating provisions of that bill (S. 517) including the Alaska delegation's effort to add northern route prohibition and ANWR development provisions. The bill would also offer expedited gas pipeline permitting processes and possibly other incentives that would shift some project risks to taxpayers, diminishing the importance of fundamental project economics. Alaska's delegation wishes for any such incentives to only apply to their preferred pipeline routing. A conference committee will ultimately agree on a final package to be submitted for Presidential consideration. If the northern route is outlawed,

Canada can fully focus on the stand-alone Mackenzie Valley and Alaska Highway gas pipeline projects without distraction.

In Alaska, state dollars are funding every conceivable aspect of every gas pipeline issue. In 2001, Governor Tony Knowles appointed the Alaska Highway Natural Gas Pipeline Policy Council. Numerous meetings were held all over the state, requiring the time of scores of state, municipal, industry, consulting, federal and regulatory witnesses. Not surprisingly, the group recommended support for an Alaska Highway gas pipeline route and provisions guaranteeing Alaskan access to the gas, among other things. The group recommended against state financial participation in a gas project.

Early in 2002, the state administration announced discovery of a unique provision in the Alaska Railroad's (ARR) bonding authority that could possibly allow it to provide tax-exempt bonds for a gas pipeline (i.e. without risk to the ARR), potentially saving over \$1 billion in finance charges. The state legislature created its own gas pipeline sub-division, the Joint Committee on Natural Gas Pipelines. Over the last year, this committee has summoned virtually all of those who appeared before the Governor's council at its own many meetings. The conclusions it reached were similar to the Council's but not identical, a point observed by Senate energy committee members.

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Last year, the administration produced economic models of competing gas projects, sharing them with the legislature. This year, the legislature is paying for its own economic models but indicated that little effort would be expended on the northern route model. The administration, early in the year, completed an offering of North Slope royalty gas timed to precede any 'open season' the producers might convene. The administration also completed studies on the value of state royalty gas and natural gas liquids and on in-state demand for gas.

Meanwhile, the producers are quietly assembling their final route decisions following last year's US\$125 million feasibility study. The atmosphere in which they labor, to an observer, is challenging: politicians are discussing higher oil and gas taxes, treating producers less than courteously in many public forums, demanding they conform their feasibility work not to law or economics, but to political decisions. The regulatory authority seems to conduct itself more in a monarchical fashion than as a public servant. As in a repressive political regime, dissent is discouraged and industry's safest profile is a low one. Many sticks and few carrots are flying the producers' way in Alaska this year. Logic would predict this atmosphere will produce effects on future investment decisions in corporate board rooms.

Some of those opposing a Mackenzie Valley pipeline before the Berger Commission in the 1970's succeeded in seeing a recommended 10-year moratorium respected when the National Energy Board disapproved the Arctic Gas project and approved the AlCan (Alaska Highway) project. With most aboriginal claims settled now, strong support for at least a Mackenzie Valley project is within grasp. Relationships among the players, while strained at times, seem to be reaching consensus. Settlement of Alaskan issues would make Canadian decisions easier. The all-important routing issue could be settled this year, either by an Alaska gas producer announcement this spring of a feasible project supported by politicians or by Congressional mandates and risk-reducing incentives, or both.

Through all the complexity, this observer hopes that: 1) "Fact and science" are given more credibility than "politics and opinion"; decisions are reached with maximum diplomacy and minimum verbal carnage; northerners everywhere will appreciate that freedom means free enterprise; citizens will subordinate personal greed to the wisdom of history and economic realities; leaders will be strong enough to sell a vision embracing long-term economic prosperity and self-discipline; Alaskans and Canadians will grow closer through cooperative efforts and joint projects.

Recently, the great Canadian energy consultant, Dr. A. Pedro van Meurs, told me that a human disposition to spend transcends boundaries and could be found in Latin America, the Middle East as well as North America. "If you asked citizens if they should diversify the economy," he said, 95 percent would say yes. "But they will still spend and they will still be dependent on oil." He referred to an oil producing country that is almost 100 percent dependent on oil and gas but is economically undiversified. Any citizen of that country would tell you it would be wise to diversify the economy, said van

Meurs. "But if you then asked him if he would be prepared to take a pay cut from his government job in support of diversification he would balk," he said.

While Dr. van Meurs, characteristically, found a polite way to tell me I am too idealistic, I cannot give up on the learning ability of humankind. For example, my animal origins want me to say "give me all the pipelines now." I want an LNG route for the additional pipe in the state, linked to an Alaska Highway route access-



**A brown bear rubs up against a pipeline support pylon.**  
*Photo by Larry Anderson.*

ing more of Alaska, and surplus gas shipped (not through the Beaufort Sea, but safely buried into the desolate tundra) 'over the top' to be combined with Delta gas, producing higher royalty gas values for government treasuries, producers and investors, and free services, and no personal taxes. But education teaches that we cannot nor should we always have all that our emotions and animal instincts demand. In modern democracies, we know the value of freedom and the rule of law.

In modern times, we have also seen government evolve into dictatorship to achieve selfish ends, attempting to force industry and the general populace to do what it wants. I want to see Arctic gas pipeline projects. I also want industry to make its own decisions with an appropriate level of governmental oversight, safely protected within the rule of law. Government has no right to say, "do it only my way" unless that way had earlier been memorialized in law before investment decisions were made. Government and industry should remember that causes produce effects. What we cause today, our successors will experience tomorrow. ■

**Dave Harbour** is a management consultant and president of the Harbour Company. He lives in Anchorage, Alaska. As a public service, he publishes the website Northern Gas Pipelines, offering a daily compendium and rich archive of Arctic gas related material may be accessed at: <http://www.arcticgaspipeline.com/>.





BY SUNNY MUNROE

## EDITOR'S NOTE

# We need to be ready for changes

The Hyatt Regency in downtown Calgary is a very nice place. It's new, is very tastefully appointed and is staffed with uniformed personnel who are pleasantly helpful without being obsequious. Even people in jeans are treated as if they are wearing Armani. It was the perfect place for a conference at which the well-heeled of Calgary's oilpatch could meet to discuss spending huge amounts of money.

The Fort Simpson Recreation Complex is also a solid, functional place, in a small town, utilitarian kind of way. The conference organizers did not wear uniforms but they were also very friendly, because that's the way they are. Nearly everyone was wearing jeans anyway, so it felt comfortable and unpretentious. It was the perfect place to discuss local development and employment issues.

At the Calgary conference, people were talking about making changes to a place that was not their home but from which they hoped to make their fortunes. At the Fort Simpson conference, people were talking about whether to allow changes to the homeland to take place, and whether making a fortune was a good thing.

Dressed up or dressed for comfort, we all need to be ready for change.

In our Spring 2002 issue, Department of Indian Affairs and Northern Development minister Robert Nault talks about the possible upcoming changes in the Northwest Territories. You can find Julie Green's interview with him on page 28. John Bayly recalls the Berger inquiry of 25 years ago, and chronicles some of the changes that have taken place since then. His story starts on page 36. Graham Chandler takes us to the Mallik drill site in the Mackenzie Delta, where an international group of scientists is looking at a crystallized form of energy that could spark huge changes in today's oil and gas industry. Find out more on page 42.

And finally, a new columnist, Dave Harbour from Anchorage, Alaska has kindly agreed to provide us with the perspective on pipeline development and other changes from that state. His column starts on page 22.

We hope you enjoy our Spring issue.

A stylized, handwritten signature of Sunny Munroe.

Sunny Munroe, Editor