BY DAVE HARBOUR

OPINION

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Alaska's Proposition 3 and the freedom to be wise or foolish

Someone once said democracy is much better than the alternatives but at times you have to wonder. In our democracies, well-meaning patriots can promote shortsighted policies that ignore science, economics and the 'big picture.'

Alaska has such constituencies too, most recently defined by a citizen-initiated voter's proposition, set to appear on the state's November election ballot. Ballot Measure 3, or "Prop 3" as it is known locally, is a gas pipeline initiative that would establish a state "authority" to acquire North Slope gas, build, maintain, market, ship, and own all or some portion of a gas pipeline to Valdez at Prince William Sound. There, the gas would be converted to liquefied natural gas (LNG) and shipped to West Coast and Pacific Rim markets. Prop 3 also calls for building a spur line to the Anchorage area to supply natural gas to Alaska's biggest population centers.

But there is another LNG project proposal causing some confusion among citizens who are not well educated in gas pipeline economics. This is the Trans-Alaska Gas System (TAGS), owned by CSX Corp., which has worked for many years to obtain permits for an LNG export project.

The Trans-Alaska project is a concept resurrected from the great pipeline debates of the 1970s. El Paso Natural Gas had proposed an Alaskan liquefied natural gas project for moving Prudhoe Bay gas to the Lower 48 states. In 1978, following intense hearings before the Federal Power Commission (now the Federal Energy Regulatory Commission), approval was recommended for either the Alaska Highway project or the Arctic Gas project to transport Prudhoe Bay and Mackenzie Delta reserves. El Paso was out. Later the same year, the National Energy Board, encouraged by Justice Berger, disapproved the Arctic Gas project, leaving victory to the Highway project.

Public opinion polls show a majority of Alaskans favour an LNG project because of its perceived benefits—more in-state, development-related employment and construction activity and better gas access. Since few credible opinion leaders oppose the proposition, it will pass unless a persuasive opposition arises.

But there are several arguments to be made against Prop 3.

Earlier this year, a state-commissioned study by Petrie Parkman & Co./CH2M Hill entitled "State Financial Participation in an Alaska Natural Gas Pipeline" counseled that, "State investment as a partner in the project could put the state at financial risk... ."

Although the LNG would be targeted to both the West Coast and Asian markets, there are currently no West Coast LNG regasification facilities capable of receiving Alaska gas, and the East Asian market is awash in gas. Phillips Alaska, Inc., a partner in a small LNG production facility on the Kenai Peninsula, said any new LNG project would face great difficulty. In testimony to the state legislature last November 8, Phillips executive Scott Jepson said, "...a cost competitive, economically viable Alaska LNG project has yet to be identified. ... The East Asian LNG market is fiercely competitive and likely to continue to be so..."

The permits obtained to date by the Trans-Alaska project only apply to a project exporting LNG to foreign countries. If the Trans-Alaska project sponsors now envision gas sales in the Lower 48, the permits might be challenged.

Alaska's looming fiscal crisis could make state participation in an LNG project difficult even if mandated to do so by Prop 3. The state is overspending by $1 billion per year, dipping into the Constitutional Budget Reserve Fund that is now used for about 35 percent of total general spending. The fund will be entirely exhausted by October 2004 or July 2005 depending upon price and economic growth assumptions.

This, coupled with a lack of a decisive plan by state legislators to address the problem caused Moody's Investors Service to lower Alaska's credit outlook from 'stable' to 'negative' in late August. Alaskan politicians will be forced to make and defend unpopular decisions that were artfully avoided in the past. Neither can frivolous expenses be tolerated. The creation of this gas pipeline authority could cost tens of millions of dollars in staffing and studies for a project no credible entity considers economically viable.

The consolation in such 'democratically produced' policies is that at least we have the freedom to be either wise or foolish. Hopefully, wisdom will prevail.

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