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Palin's Pipeline Is Years From Being a Reality

By SERGE F. KOVALESKI and MIKE McINTIRE

ANCHORAGE When Gov. Sarah Palin of Alaska took center stage at the Republican convention last week, she sought to burnish her executive credentials by telling how she had engineered the deal that jump-started a long-delayed gas pipeline project.

Stretching more than 1,700 miles, it would deliver natural gas from the North Slope of Alaska to the lower 48 states and be the largest private-sector infrastructure project on the continent.

"And when that deal was struck, we began a nearly $40 billion natural gas pipeline to help lead America to energy independence," said Ms. Palin, the Republican vice-presidential nominee. "That pipeline, when the last section is laid and its valves are opened, will lead America one step farther away from dependence on dangerous foreign powers that do not have our interests at heart."

The reality, however, is far more ambiguous than the impression Ms. Palin has left at the convention and on the campaign trail.

Certainly she proved effective in attracting developers to a project that has eluded Alaska governors for three decades. But an examination of the pipeline project also found that Ms. Palin has overstated both the progress that has been made and the certainty of success.

The pipeline exists only on paper. The first section has yet to be laid, federal approvals are years away and the pipeline will not be completed for at least a decade. In fact, although it is the centerpiece of Ms. Palin's relatively brief record as governor, the pipeline might never be built, and under a worst-case scenario, the state could lose up to $500 million it committed to defray regulatory and other costs.

Contributing to the project's uncertainty is Ms. Palin's antagonistic relationship with the major oil companies that control Alaska's untapped gas reserves.

Ms. Palin won the governor's office in part by capitalizing on populist distaste for the political establishment's coziness with Big Oil, and her pipeline strategy was intended to blunt its power over the process. Her willingness to take on the oil companies has allowed the McCain campaign to portray her as a scourge of special interests.

Now, though, she will need the industry's cooperation if her plan is to succeed, and just this week, her office said she intended to reach out to the North Slope oil companies.

As Ms. Palin takes to the road to campaign with Mr. McCain, invoking the pipeline as a major victory, some Alaska lawmakers who initially endorsed her plan now believe it was a mistake. State Senator Bert Stedman, a Republican who is co-chairman of the finance committee, said that in its contract with the chosen developer, TransCanada, the state bargained away too much leverage with little guarantee of success.

"There is no requirement to lift one shovel of dirt or lay down one inch of steel," he said.

A spokesman for Ms. Palin, Bill McAllister, denied that her recent statements about the pipeline were misleading. He said they should be viewed within the context of the project's long and frustrating history, dating back to the Carter administration.

"When the governor signed the legislation giving her administration the authority to grant the gas line license to TransCanada, Alaska came closer than it has ever been to seeing the project actually happen," Mr. McAllister said. "There is no denying that a major milestone in the project has been reached."

Ms. Palin's pipeline plan has its roots in longstanding efforts to access the trillions of cubic feet of natural gas under the North Slope, where some of the world's major oil companies, including BP, Exxon Mobil and ConocoPhillips, have exploration and development rights. Congress has prodded all parties involved to develop a plan to tap the gas since at least the 1970s, but the private sector has been unwilling to assume the huge cost of building a pipeline without considerable government tax breaks and other concessions.

Ms. Palin's push for a pipeline is central to her view that Alaska, with its North Slope gas resources, is a key to helping the United States develop an energy policy that embraces increased domestic production of gas and oil and the development of renewable and alternative energy sources.

Her predecessor, Frank H. Murkowski, had negotiated an exclusive pipeline deal with the major oil producers that proved unpopular with lawmakers and was never acted on. In the 2006 Republican primary, Ms. Palin wielded Mr. Murkowski's pipeline proposal against him, calling it a sweetheart deal for Big Oil, which treated Alaska like a colony and faced little resistance from past governors.

Once elected, Ms. Palin set about fashioning an alternative that was essentially a

180-degree turn, intended to open up the bidding process to other companies. It also did away with incentives that a consultant for the Legislature estimated would have saved the oil companies an estimated $10 billion over 30 to 40 years. Ms. Palin also rehired key state oil and gas officials, including Marty K. Rutherford, who had quit, and Tom Irwin, who had been fired, after opposing Mr. Murkowski's approach.

Mr. Irwin said Ms. Palin wanted to create an environment for a larger number of companies in the energy industry to openly compete to build the pipeline, rather than just handing a favorable deal to the North Slope oil producers. Ms. Palin's objectives were enshrined in the Alaska Gasline Inducement Act, introduced just months into her governorship.

"We were going nowhere; the producers were holding us hostage," said Ms. Rutherford, who heads Ms. Palin's gas pipeline team. "They were demanding great value from the state with no guarantee to do anything for us."

While Ms. Palin's legislation did away with the concessions to the oil companies that she considered to be excessive, it committed the state to paying the winning bidder up to $500 million in matching money to offset costs of obtaining regulatory approvals and other expenses. Ms. Rutherford, whose team recommended the subsidy, said the governor was reluctant but eventually agreed that the state had to share in the risk to that degree; the $500 million amounts to about 10 percent of the projected state budget surplus this year.

The bill sailed through the Legislature in May 2007. Only a single lawmaker, the House majority leader, Ralph Samuels, a Republican, voted against it. When the state solicited proposals from interested companies, it soon became apparent that the big oil companies would not participate. One of them, ConocoPhillips, submitted a proposal outside the process, but it was swiftly rejected by the Palin administration.

Of the five companies that eventually bid, Ms. Palin's administration chose TransCanada Pipelines, which operates 36,500 miles of pipeline across North America. TransCanada had previously tried to negotiate a pipeline deal with the Murkowski administration, but was sidelined by the governor in favor of the big oil companies, some officials who were involved in the talks said. That contributed to the rift that led to the departures of Mr. Irwin, Ms. Rutherford and five others from the state Department of Natural Resources.

The proposal that TransCanada negotiated with the Murkowski administration was structured differently from the current one and had no provision for a $500 million state subsidy, said two people who reviewed it and who spoke on condition of anonymity because the proposal remains confidential.

Of the Palin aides familiar with TransCanada from those earlier negotiations, Ms.

Rutherford had an unusually close connection. For 10 months in 2003, she was a partner in a consulting and lobbying firm whose clients included Foothills Pipe Lines Ltd., a subsidiary of TransCanada.

Ms. Rutherford said in an interview that after TransCanada submitted its pipeline proposal to the Palin administration, she and the governor never discussed whether her role on the team might be viewed as improper or give the appearance of a conflict of interest.

Ms. Rutherford, who said she had not lobbied for Foothills but had done research and analysis, stated that she was not one of the pipeline team members who recommended a developer to Ms. Palin. That was done by Mr. Irwin and Patrick S. Galvin, the commissioner of the Department of Revenue, she said.

“At the end of the day, I was not a decider,” said Ms. Rutherford, who acknowledged reading the proposals and discussing them with others on the team.

Mr. McAllister, the spokesman for Ms. Palin, said that Ms. Rutherford was not in a position to gain anything from her past association with TransCanada and that her role posed no conflict.

When the Legislature ratified the choice of TransCanada this summer, Ms. Palin called a news conference to hail the deal, saying that the state had finally obtained a commitment to build the pipeline. But after some of her aides offered a more restrained assessment, she dialed back her exuberance, saying, “We’re not turning dirt yet.”

Under the most optimistic circumstances, dirt is not expected to be turned for years. TransCanada’s plan calls for it to file an application with the Federal Energy Regulatory Commission by the end of 2011, and to have the pipeline operational by late 2018. The company is not obligated to proceed with the project even if it clears all the financial and regulatory hurdles.

In assessing the state of the project, Mr. Galvin, the state revenue commissioner, avoided the characterization that Ms. Palin employed in her convention speech. A number of important decisions remain in the relationship between the state and TransCanada, he said, including whether the state will ultimately endorse the company’s application to the federal government.

“We’ve started to build the framework for this project to move forward,” he said.

The state’s commitment to match some start-up expenses, up to $500 million, is among several aspects of the deal that have prompted some legislators to second-guess their initial support.

Lyda Green, a Republican and president of the State Senate, voted for Ms. Palin's Alaska Gasline Inducement Act but said that in the interim, it has not "shown itself to be open and competitive, and it is a very expensive risk."

"I regret the vote now," she said last week.

Mr. Stedman, the Senate finance committee co-chairman, said he now believes that the Legislature was overly eager to support a new governor and see a pipeline project move forward. He contended that Ms. Palin's bill seemed intentionally written to keep the three major Alaska oil producers from submitting proposals. Demonizing Big Oil, he added, could come back to haunt the state.

"It's a sad state of affairs, but it's true: if you look at the politics of the state and you want to have a devil, you can point at Exxon, as well as at BP and Conoco," Mr. Stedman said. "It is good politics."

Beyond the $500 million subsidy, a central criticism of the deal is that for it to succeed, TransCanada needs to secure shipping commitments from the oil companies, which control most of the North Slope gas resources. Those pledges are far from certain.

State officials have pointed out that they have the authority to revoke the oil and gas leases if the companies act unreasonably by refusing to extract the gas from the ground. Indeed, last month the state sought to pull 44 of Exxon's leases at Point Thomson, arguing that the company had not moved on any of its nearly two dozen plans submitted over the years to develop the area, and that the last well Exxon drilled there was in the early 1980s, Mr. Irwin said.

Tony Palmer, vice president in charge of Alaska operations for TransCanada, said he was confident that shipping arrangements could be worked out with the North Slope companies, saying TransCanada had long had other agreements with them. He praised Ms. Palin for providing "impressive leadership to move this project forward," and said TransCanada had already begun preliminary fieldwork.

Meanwhile, the oil companies seem to be charting a course of their own. A month before Ms. Palin announced the selection of TransCanada, BP and ConocoPhillips unveiled a partnership to construct their own pipeline, and started the process of seeking federal certification.

Publicly, Ms. Palin welcomed the producers' involvement, calling it a validation of her overall effort to galvanize interest in a pipeline. But it is unclear whether the oil companies are seriously pursuing it or are simply trying to throw a wrench into the TransCanada plan.

Bud Fackrell, the president of the BP-Conoco venture, called Denali-The Alaska Gas Pipeline, said the companies were committed to spending about $600 million to line up customers.

“This not a bluff,” he said. “Six hundred million dollars is not chump change.”

Mr. Fackrell raised one of the critical issues for the North Slope producers: taxes. He said that for Denali to attract customers, they “need to know what the tax regime is going to be or they will be hesitant to sign up” for 25-year shipping commitments. They are asking the state for “fiscal certainty,” Mr. Fackrell added.

Mr. Fackrell contended that among the virtues of the joint venture was BP and Conoco’s more than 30 years of experience on the North Slope, building the infrastructure and operating most of the facilities there.

He left open the possibility that TransCanada could become part of the venture.

– 30 –