

United States Senate

WASHINGTON, DC 20510

September 19, 2011

The Honorable Sean Parnell
Governor
State of Alaska
PO Box 110001
Juneau, AK 99811-0001

Dear Governor Parnell:

Although energy prices have decreased from record highs last year, consumers continue to face high prices around our country. At the same time, our nation faces two monumental challenges of reducing the national deficit and promoting job growth. We both agree development of Alaska's oil and gas resources and construction of an Alaska natural gas pipeline to the Lower 48 states can address all three of these challenges.

Ultimately, the main driver of the Alaska gas line project will be the market. Leaseholders must have confidence that Lower 48 gas prices will be attractive for a long enough period of time to pay for the pipeline and make a reasonable profit. However, as government leaders, we can identify areas on the margin where the economic prospects of the project can be improved, and even marginal factors on a \$40 billion project can affect the possibility of a pipeline.

On the federal side, the 2004 Alaska Natural Gas Pipeline Act (ANGPA) laid a firm foundation. It created a federal coordinator to oversee permitting and review by almost 20 federal agencies and authorized loan guarantees for the project of almost \$21 billion in 2011 dollars.

In addition, federal law provides a tax credit for the multi-billion-dollar gas treatment plant that would be built at Prudhoe Bay and tax savings for the project developer through accelerated depreciation on the pipeline. However, these steps may not be enough for a project of this size in today's challenging natural gas market.

Senator Murkowski, Congressman Young and I have worked over the last three years to increase the federal loan guarantee in ANGPA to reflect today's construction cost estimates of \$32 billion to \$41 billion. To meet the 70 percent

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debt financing requirement of the Alaska Gasline Inducement Act, the debt load will be closer to \$30 billion at the higher end of the construction estimate.

Although we came close to increasing the federal loan guarantee in the last Congress, the current scrutiny of federal loan guarantees for energy projects and focus on cutting the federal budget will make it much harder, if not impossible, to increase the loan guarantees anytime in the near future. To fill the gap in the current loan guarantees, I would encourage the State to look at creating its own loan guarantee to partner with the federal guarantee for the project.

The State of Alaska's financial reserves make it the envy of the other 49 states and also give some members of Congress an argument against increased federal backing for the project. Those same financial reserves, however, also provide an opportunity for the state to step up and work with federal financing to make this project happen.

Thanks for your consideration of this request.

Sincerely,



Mark Begich
United States Senator