



Financing the Alaska Highway Gas Pipeline: What is to be done?

By Arlon R. Tussing and Connie C. Barlow

A vitally important issue facing Alaska—the outcome of which could significantly affect the state's economy for many years to come—has been whether or not the state should participate in financing the Alaska Highway Gas Pipeline Project. At the request of the Legislative Affairs Agency, the authors in August 1978 undertook a major study intended to provide the Legislature with information on the financial feasibility of the project and other pertinent factors. The following article summarizes conclusions from this study that have appeared in three preliminary reports and the final report. The preliminary reports are (1) An Introduction to the Gas Industry, (2) Marketing and Financing Supplemental Gas, and (3) The Alaska Gas Pipeline: A Look at the Current Impasse. The final report, Financing the Alaska Highway Gas Pipeline: What is to be Done?, was submitted to the State Legislature April 23, 1979.

The Problem

The Alaska Highway gas pipeline almost certainly offers substantial net economic benefits to both the United States and the State of Alaska, but as a business venture it may be marginal at best without extraordinary kinds of government intervention. The project is floundering today because Northwest Alaskan Pipeline Company (Northwest) and the United States Department of Energy (DOE) have not conceded the existence of serious noncompletion and marketing risks that other parties—especially the major lenders—perceive and are not able or willing to bear. Thus, because the project's financing is not credible, the whole project as presently organized is not credible.

The Need for Federal Financing Guarantees

Construction and operating risks must be fully and firmly apportioned. The project's guarantors, therefore, must include some grouping of gas producers, Alaska, the sponsoring transmission companies, the government of Canada, and

consumers. But no combination of guarantors will be strong enough or credible enough to the lenders unless it also includes the United States government as the guarantor of last resort. The pipeline will go absolutely nowhere until it has a project leader who acknowledges this fact.

Preconditions for Federal Backing

While federal backing is indispensable to financing an Alaska Highway gas pipeline, such backing is a vain hope unless other parties also bear substantial risks. The most logical and conventional way to strengthen the project's private financing—and thereby to make government guarantees more acceptable—would be to require the companies that want to ship Alaska gas to invest in the pipeline, and to require each of the owners to guarantee a proportionate share of the project's debt.

Apportionment of Benefits, Costs, and Risks

The gas transmission companies, however, differ widely in their ability to provide equity or back the project's debt, and this ability is not necessarily proportional to their need or desire for Alaska gas. Therefore, the ultimate plan of organization and the ultimate financing plan will have to permit reasonable differences in position and treatment between owners and nonowners, between guarantors and nonguarantors, and among as well as between transmission companies and gas producers. Each party's exposure must be so limited that the worst plausible combination of events would not wipe it out or seriously debilitate it. Every party with a vital interest in the pipeline must also believe that the apportionment of risks is fair and reasonable according to its own perceptions and philosophy.

The Need for a Project Leader

The need to ascertain the motives and limitations of each party, and to craft a solution acceptable to all of them, means that decisions on the allocation of benefits, costs, and risks cannot be made piecemeal. One individual or institution needs to coordinate and broker the resolution of all the fundamental organizational and financial issues. The most effective project leader would be a respected senior public servant who is intimate with both government and finance, independent of any other administrative or policy responsibilities, appointed by and responsible directly to the President.

Challenges to the Project Leaders

The project leader can and must be free to step outside the framework of previous Congressional, Presidential, or FERC policy decisions and commitments in order to forge an accommodation among the parties. One of the most challenging tasks for the project leader will be to help Northwest find a position in the venture that recognizes the company's pioneering and risk-taking role, yet which is acceptable to all the other parties, including the lenders and Congress.

Alaska's Financial Role and Strategy Toward the Pipeline

By making known its general willingness to consider financial support for the gas transportation system, Alaska has gone just about as far as is prudent

or reasonable until a believable strategy for financing the whole system is on the agenda. The most useful office Alaska could now exercise would be as a catalyst to the other parties, and particularly to the federal government, in the hope that the latter will assert the kind of leadership of which no other party is capable. The state's effort to catalyze federal initiatives and, later, its negotiations with other parties would be most effectively conducted by a full-time officer of cabinet rank, appointed by the Governor to deal exclusively with gas pipeline policy issues.

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