

FRANK H. MURKOWSKI  
GOVERNOR  
GOVERNOR@GOV.STATE.AK.US



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

P.O. Box 110001  
JUNEAU, ALASKA 99811-0001  
(907) 465-3500  
FAX (907) 465-3532  
WWW.GOV.STATE.AK.US

November 16, 2006

The Honorable Ben Stevens  
President of the Senate  
Alaska State Legislature  
State Capitol, Room 111  
Juneau, AK 99801-1182

The Honorable John Harris  
Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, AK 99801-1182

Dear President Stevens and Speaker Harris:

It is with pleasure and a deep sense of satisfaction that pursuant to article III, section 18, of the Alaska Constitution, the authority of the Stranded Gas Development Act, that I transmit to you under my signature and place in your control and responsibility the vehicle containing the economic and other analysis and documents necessary to finalize the Alaska gas pipeline contract. This package will empower the Legislature and the new administration to finalize the gas pipeline contract in the near term to secure Alaska's future.

We commit our support to work with the new governor and her staff to finalize this contract. What we are proposing today will prove to be the only expeditious and economically viable project to market Alaska gas resources. I stand ready to assist the new governor and the 25<sup>th</sup> Legislature to bring it to a successful conclusion in the interest of all Alaskans.

Under article III, section 18, of the Alaska Constitution I hereby find that it is necessary to the future welfare of the State of Alaska that a gas pipeline contract be completed immediately to start the process of transforming Alaska's revenue stream from one based primarily on oil to one based primarily on gas (which will also extend and expand our ability to monetize our oil resources). I urge the Legislature to work with the administration to negotiate the changes necessary to respond to legislative and public comments on the May 24, 2006, contract and ratify the amended contract without delay. Delay subjects Alaska to the greatest future risk to its economy—no gas pipeline.

I am transmitting to you today all of the tools necessary to complete the contract and start the gas pipeline project through the Interim Fiscal Interest Findings (IFIF). The IFIF contains all of the information and analysis about the project that we have developed over the past two years. It explains why it is in the best interest of the state to complete an updated, modified version of the

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May 24, 2006, contract, which my administration negotiated with the Producers, who indicated their acceptance.

The proposed changes to the May 24, 2006, contract are displayed and analyzed in the IFIF. The proposed changes were developed in response to the public comments from more than 2,100 persons. But for the lack of time and will to conduct another special session these proposed changes could have been successfully negotiated. With the election behind us, efforts must be made to immediately negotiate the proposed changes into the contract. Again, delay is Alaska's greatest enemy to getting a gas pipeline.

Finally, included in the IFIF is the administration's version of the pipeline governance document, the Limited Liability Corporation contract. The state and the Producers were willing to reach an agreement and finalize the LLC contract. Again, without the time or will to conduct another special session, our negotiators were not able to finalize the LLC contract. The LLC contract transmitted today must be negotiated and finalized.

It will take up to ten years from when an agreement is reached on a gas pipeline contract until a gas pipeline is producing revenue to replace revenue lost by declining oil production. Delaying the transition from an oil-based economy to a gas-based economy will create a significant revenue gap starting a very few years from now. Too long of a delay could jeopardize the gas pipeline all together and the potential for extending the life of the TransAlaska Pipeline would likely be lost with it.

In the short four years of my administration we have seen costs of a gas pipeline go up and the price of gas decline. The MacKenzie Delta project in Canada has been delayed for these among other reasons. According to 'Information Insights' analysis, for each year of delay in getting a gas pipeline contract, the estimated net present value of revenue loss to the state and local governments would be approximately \$900 million per year.

Furthermore, Alaska's gas can expect a dramatic increase in competition from other energy sources: coal, imported liquefied natural gas, and nuclear power.

Much concern has been expended on what the Producers might get with a gas pipeline agreement, when the real emphasis should be on what Alaska will receive from a gas pipeline. Time is running out. Gambling our gas

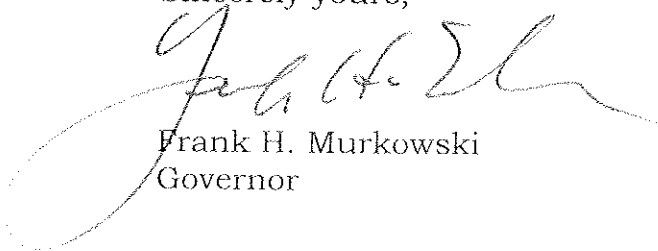
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pipeline and our state's future economy in search of an imaginary perfect deal risks our children's and grandchildren's future for pennies on the dollar.

**In May I delivered to you the May 24, 2006, contract that the Producers and I would sign and that would build an Alaska Gas Pipeline.** The Legislature and public have asked for changes. I am transmitting to you all of the information necessary to make the changes for which the Legislature and public asked to complete the contract. I pass this IFIF to you in contract form and request that you accept responsibility that goes with elective office, and complete the process to incorporate the proposed changes into the contract and ratify the May 24, 2006, contract as amended.

A vast majority of Alaskans share my belief that time is running against us and we delay completing a contract at our peril. I trust you will be sensitive to the need for action now.

Sincerely yours,



Frank H. Murkowski  
Governor