



Printable version: Thursday, May 10, 2007

2. ALASKA: Indictments won't derail effort to control new pipeline terms, state officials say

Arthur O'Donnell, *Land Letter* editor

The state Capitol building was still reeling this week from the news that FBI agents had arrested and indicted three Republican politicians last Friday -- and by the subsequent guilty pleas by two oil company executives accused of bribing lawmakers regarding an oil tax and pipeline legislation last year.

Nonetheless, the administration of Gov. Sarah Palin (R) continues to express confidence that lawmakers will be able to finalize a measure to hold a competitive bidding process for construction of a \$20 billion to \$30 billion natural gas pipeline that could run from Prudhoe Bay all the way to markets in the Midwest. "We are convinced we will get the legislation and it will emerge as proposed" by the governor, said Marty Rutherford, deputy commissioner for the Alaska Department of Natural Resources. "There is no indication it is derailing the process," she told *Land Letter* this week.

The arrests on May 4 of Victor Kohring a current member of the House of Representatives, along with former House member Bruce Weyrauch and ex-Speaker of the House Peter Kott, came as the Legislature is wrapping up its session.

Kohring, who was chairman of a special committee on oil and gas until his arrest, was served with a four-count indictment, alleging extortion, bribery and conspiracy. The FBI said that Kohring "solicited and received financial benefits from an entity identified in the indictment as Company A." Kott and Weyrauch were also served on multiple counts of bribery, extortion and wire fraud, alleging that the men "each corruptly solicited and/or received multiple financial benefits from Company A in exchange for each legislator's agreement to perform official acts ... to further the company's business interests."

Though not named specifically, the indictment referred to oil field services company VECO Corp., which has been facing its own legal difficulties. The federal government had previously indicted company CEO Bill Allen and community and government affairs Vice President Rick Smith.

The two executives entered guilty pleas Monday to three counts each of extortion, bribery of five Alaska legislators and several state officials and conspiracy to defraud the Internal Revenue Service. Allen and Smith told the U.S. District Court that they gave state lawmakers and officials \$400,000 in exchange for their political support. Both men face maximum

penalties of 20 years in prison and fines of \$750,000 each ([Greenwire](#), May 8).

According to accounts compiled by the *Anchorage Daily News*, in 2005, then-Rep. Kott called VECO's Smith to say, "I need a job." Smith responded, "You've got a job, get us a pipeline," the newspaper reported.

Other lawmakers, including Kohring and Kott also received cash payments from the company, according to news accounts. The state this week was buzzing with speculation about whether other lawmakers would be brought under indictment.

Gov. stands up to industry

The events of the past week almost overshadowed significant developments with regard to Gov. Palin's Alaska Gasline Inducement Act (AGIA), which had been garnering legislative support despite fierce opposition from the oil and gas industry. At least three companies, BP, ConocoPhillips and Exxon Mobil Corp. announced they would not participate in competitive bidding for the project under terms spelled out in AGIA.

In particular, the companies say they will not comply with a list of 20 "must have" requirements that are spelled out in the legislation -- ranging from procedural elements structuring a bid to a commitment that the winning pipeline developer hire local residents to the maximum extent, keep tariff rates as low as possible and allow for future expansion of capacity on the line.

"The oil and gas industry has indicated in testimony that they do not like this legislation." DNR's Rutherford told *Land Letter*. "Where the controversy is focused is on Alaskan interests and the national interest. We've never had an open, honest dialog about what protects the national interest," she said. "We want to ensure that whoever owns the pipe has incentives for expansion and the lowest possible tariff," she added.

It is important for the state to call the shots on this line, Rutherford said, "There's only one going to be built."

Palin concurred in a statement accompanying the release of the "must-haves" list. "Nothing in the AGIA or the AGIA process prevents producers from developing gas this very second. After 30 years, at today's projected gas prices Alaskans deserve to have reasonable demands. The days of low expectations are over," she said.

Along with the bidding application requirements, the state's Department of Revenue issued a white paper that laid out and debunked claims made by producers about pipelines and development issues. These range from discussion of risks inherent to exploration and "open season" capacity solicitations to producers' claims that rolled-in rates for future capacity expansion would not be in the state's interest.

In response, the AGIA team of experts countered, "Geologists agree the North Slope is awash in gas pockets," and "Initial shippers benefit from expansions and expansion shippers pay their share."

In the end, the involvement of VECO and Republicans in the scandal could well benefit Palin, who already enjoys immense popular support for standing up to the oil and gas industry. That confidence was shared by DNR's Marty Rutherford. "We have not allowed ourselves to focus on failure," she said.

[Click here](#) to read the "must-haves" list of bidding requirements.