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Opinions

Opinion: Alaska’s energy future just got more expensive — and more uncertain

By Tim Bradner
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The shuttered Kenai LNG plant in Nikiski. The plant stopped producing LNG in 2015 amid a decline in Cook Inlet natural gas supply. (Loren Holmes / ADN)

President Donald Trump's war against Iran is moving in unpredictable ways. This happens in war, particularly ones that are not well thought out.

Alaskans are feeling the impacts. Fuel prices are rising because the Strait of Hormuz, the vital passage for oil and gas, is still blocked.

If the president wins his war, fuel prices will go down. No one knows when that will be.

Liquefied natural gas, or LNG, presents another impact Alaskans may feel, but it's more complicated. The strait is also blocked for LNG tankers that supply Asia. It isn't just that the tankers can't sail, but also that the big LNG plants in the Persian Gulf have been damaged and will take years to repair. Meanwhile, LNG prices on the world "spot" market are soaring.

*[**Related coverage**: Alaska Senate votes to clarify state authority for imported natural gas prices]*

What brings this home to Alaskans is not just the pain commuters feel at the gas pump, but that 2028 and 2029 are likely to be the first years when Southcentral Alaska utilities will need to purchase LNG in the open market and bring it to the state. We'll need to import LNG because, by then, declining production from aging Cook Inlet gas fields will fall below what's needed for home heating and power generation, according to the state Division of Oil and Gas.

It's possible a planned natural gas pipeline from the North Slope can be built, but this is uncertain and, in any event, can't likely be built in time. It's also possible more gas can be found in Cook Inlet. This is also uncertain, but the prospects are good.

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However, utilities like Enstar Natural Gas Co. and Chugach Electric Association need to be sure they can provide fuel and power to their customers, and as a result, contingency plans are being made to import LNG. There are several plans for terminals to import the liquefied gas. The one furthest along is a project by Harvest Alaska, an affiliate of Hilcorp Energy, to convert the former ConocoPhillips LNG export plant on the Kenai Peninsula to an import terminal and to “regasify” LNG. This work could be underway soon. But the timing is terrible. We’ll be in the market to buy LNG when the war effects on energy markets will still be felt. This will make imported gas much more expensive.

Prewar, the best guess for the cost of imported LNG was about twice what is now being paid for most gas from Cook Inlet. The war premium will drive it higher, possibly by a third or more, is a good guess. Keep in mind, however, that the war price will affect only the portion of gas that is imported and not the gas produced in Cook Inlet. However, after 2030, regional gas production could drop substantially, according to the state Division of Oil and Gas. That means the amount of LNG imported will grow and have a greater impact on consumers’ fuel and power bills.

You can also bet that prices for any new Cook Inlet gas will rise, too, because producers will want to be paid what LNG importers are paid. A North Slope gas pipeline, if it is built, could ensure a steady energy supply, but because the cost of the pipeline is unknown, the cost of delivering the gas is also unknown. This puts us in a murky position.

Our best course would be to encourage as much new drilling for gas in Cook Inlet as possible, and as quickly as possible. We know gas resources are there and that new drilling gets new gas. This should be less expensive than imported LNG. But drilling is costly, and the regional utility market is small, which makes the economics of new gas production in the region complicated. But incentives like lowering the state royalty for new gas have been shown to be effective. New Cook Inlet gas can be developed fairly quickly, too. The benefits of the assured energy outweigh the small cost to the state treasury with lower royalties.

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More renewable energy should be on the to-do list. President Trump's campaign against renewables has resulted in two significant wind projects, one in Southcentral Alaska and the other near Fairbanks, being put on the shelf. Fortunately, Chugach Electric is moving ahead with a sizeable solar project and new hydro projects, and the state's Alaska Energy Authority plans an expansion of the Bradley Lake hydro project near Homer. These will help reduce the use of natural gas, but they won't solve the bigger problem of its short supply.

Meanwhile, let's do what we can to help the North Slope gas pipeline. It faces a lot of challenges, but it would solve a lot of problems. New gas from Cook Inlet and eventually the North Slope can shield us from the volatility we see now in LNG markets.

For Alaskans, the immediate pain is with the prices of gasoline and diesel. These will ease when the fighting stops and the Strait of Hormuz reopens. Right now, it's unknown when that will happen.

I think about these things when I go to the gas pump. I'd like to ask President Trump: "Mr. President, you started this war. How will you end it?"

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