

Conoco, Marathon to close gas liquefaction plant on Peninsula Murkowski and Begich speak up for a North Slope line.

By ELIZABETH BLUEMINK
ebluemink@adn.com

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The biggest single user of Cook Inlet natural gas is shutting down, raising fresh concern about the future of Southcentral Alaska's main energy supply.

Due to deteriorating market conditions, the Nikiski liquefied natural gas plant will no longer export gas to Japan starting this spring, its owners announced Wednesday.

It's a historic milestone in Cook Inlet, if a disappointing one: The plant has exported gas to Japan for 41 years.

The plant's owners, Conoco Phillips and Marathon Oil, said Wednesday that despite being granted a new export license by the federal government, they were unable to renew new supply contracts with LNG customers in Japan.

The producers said they will now focus their efforts on supplying gas to the regional utilities that use Cook Inlet gas to heat homes and provide electricity.

"This is a disappointment for Cook Inlet," said John Sims, a spokesman for Enstar Natural Gas Co., the region's largest gas utility. Enstar was already short on its guaranteed gas supplies for this year -- the first time that has ever happened. The company is concerned that without the overseas customers, Cook Inlet producers will have less incentive to explore for new sources of gas.

Enstar is now looking at importing gas from overseas within the next few years. It's possible that some of gas that was exported to Japan will now be sold to the utilities instead, limiting the amount of gas that will have to be imported.

The mothballing of the plant also brings new sizzle to the debate over piping North Slope gas via a bullet line to Southcentral to alleviate the region's gas supply crunch.

"Whenever we shut down an export facility in Alaska knowing that we have 35 trillion cubic feet of gas 800 miles away on the North Slope, and decide that it's easier to import gas, it should be cause for concern," said House Speaker Mike Chenault, a Republican whose home district in Nikiski is directly affected by the shutdown. "This, at the least, should serve as a wake-up call to Alaskans."

Is the plant's closure a bad sign for the viability of selling North Slope gas to Asian markets? Advocates of piping the gas to Valdez, including 2010 gubernatorial candidate Bill Walker, have touted the idea of liquefying the gas there and shipping it to Asia.

At least one gas line pundit said Wednesday night that it's inappropriate to assume that Asian customers will feel the same way about the small output of the Kenai plant versus the huge possibilities of North Slope gas. The Kenai plant shipped about 21 billion cubic feet of LNG in 2009, off a peak of 64 billion cubic feet. Trillions of cubic feet of gas are available from the North

Slope.

LOST JOBS

The gas exports by Conoco and Marathon provided roughly 30 jobs on land and 30 jobs on the Tyonek platform in northern Cook Inlet. Conoco said it is working to relocate the onshore workers in new jobs. The offshore workers on the platform will not be laid off because the platform will continue to supply gas for local consumption.

"The closure of the LNG plant will leave a huge hole in Kenai's economy," said U.S. Sen. Lisa Murkowski, R-Alaska. Echoed by U.S. Sen. Mark Begich, D-Alaska, Murkowski said the closure highlights the urgent need to commercialize the North Slope's gas reserves.

Though some state politicians objected to shipping Cook Inlet gas overseas because of the looming shortages for local residents, the plant was a "virtual storage facility" for regional gas and electric utilities when their supplies were stretched thin in the dead of winter, according to Enstar.

Enstar supported the plant -- the only in the United States now authorized to export LNG overseas -- because it stimulated exploration for natural gas in Cook Inlet and it sent gas to the utilities during the peak demand days of winter, Sims said.

"It was an insurance policy we no longer have," he said.

For now, it's unclear how the plant's closure will affect local gas supplies and the prices paid by local consumers. It's possible, for example, that Conoco and Marathon could sell more gas to the region's gas and electric utilities, company officials said.

"How it will change the market, we don't know," Sims said.

A FUTURE USE?

Conoco said Wednesday that it plans to mothball the plant in April or May and preserve it for future options. Those options include converting it into an LNG import plant, so local utilities can purchase foreign gas, or using it to export gas transported via bullet line from the North Slope.

"We don't have any agreements for that but we want to keep our options open," said Conoco spokeswoman Natalie Lowman.

In the meantime, closing the export plant could put some gas wells in Northern Cook Inlet in jeopardy of never producing again due to water intrusion in the geologic formations. That could occur when less gas is produced.

"There could be some negative things that happen to the (North Cook Inlet) field. We may have to shut in some wells or choke them back. That could cause production problems. We'll try to manage that so we don't lose too many of our wells," Lowman said.

Find Elizabeth Bluemink online at adn.com/contact/ebluemink or call 257-4317.

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Nikiski LNG plant to close: ConocoPhillips, Marathon to cease exports, mothball facility

By Molly Dischner | *Peninsula Clarion*

Employees at the Liquefied Natural Gas plant in Nikiski were notified on Wednesday that the plant will be shutting down later this spring.

The plant is co-owned by ConocoPhillips and Marathon Oil, with ConocoPhillips operating the plant.

ConocoPhillips representative Natalie Lowman said the company employs 30 people directly, and will work on helping them get jobs within the company.

"We'll definitely work with them to find opportunities for them," she said.

In a statement, Rep. Mike Chenault, R-Nikiski, said the loss of jobs would hurt the local economy.

"I can only imagine what this is doing for the workers there and their families, and those on the platform," he said.

"I've gone to school with, know and represent today some of the families affected by today's decision. The plant offered 30-plus jobs, with another 30-plus on the platform. Those were high-paying, family-supporting wages. Gone."

Lowman didn't know if those opportunities would be on the Kenai Peninsula, elsewhere in Alaska or at the company's other locations throughout America and abroad.

Alaska Sen. Mark Begich, a Democrat, said in a statement that he was disappointed to hear the news about the plant closing.

"I am glad to hear ConocoPhillips will work to ensure these employees are quickly placed in jobs elsewhere," he said.

Lowman said the decision was a gradual one, made as the company tried to negotiate its contracts for the LNG it ships to Japan. The closure will also be gradual.

"We will be ceasing actual exports effective April or May of this year," Lowman said.

The closure will be a mothballing process, so it could be used again in the future if LNG demand warranted it, she said.

Lowman said the plant received needed license extensions last year, but was not able to get a satisfactory price for their LNG. Conoco Phillips has been producing LNG to ship to Japan for more than 40 years.

The Associated Press reported that Marathon Oil's Carri Lockhart said the "business case does not support continuing exports at this time."

The company will continue to produce natural gas from the Beluga and Tyonek fields to fulfill other natural gas contracts in Alaska, but Lowman didn't know if it would be producing the same quantity of gas.

"I think that there's some risk that production will go down," she said.

Lowman said it was too early to say whether the company will have more gas to sell to locally now that none is being shipped out of state. But the closure does reinforce the need for gas storage, Lowman said. The company has not signed on as a customer for the proposed Cook Inlet Natural Gas Storage Facility in the central Kenai Peninsula area, but supports gas storage efforts throughout the state, she said.

"We're definitely aware of the others that are seeking opportunities for gas storage," she said. "We certainly support that."

While not a storage facility per se, the plant has been a backstop for Southcentral utilities when gas wells in the area did not meet the peak winter demand during cold weather. Staying warm may be trickier without that fall-back, Chenault said in a statement.

"It's a sad day for the Inlet and our outlook," he said. "The problem now comes in the winter time when cold, dark days hit Southcentral and we can't supply gas that the plant saved as a back-stop."

Conoco Phillip's Dan Clark told The Associated Press that at its peak, about 64 billion cubic feet a year was exported. But volumes have been falling. He couldn't say what the most recent volumes were but said during 2010, the company went to using one ship when it previously had been running two.

In 2010, the company went to using one ship when it previously had been running two, he said.

Chenault said the planned closure highlights the need for gas development on the Peninsula, and elsewhere in the

state.

"This, at the least, should serve as a wake-up call to Alaskans," he said.

Sen. Lisa Murkowski, a Republican, agreed.

"This announcement highlights the urgent need we face to find a way to commercialize our North Slope gas reserves and create the kind of economic growth that will keep families in Alaska," she said.

Molly Dischner can be reached at molly.dischner@peninsulaclarion.com.

Kenai closure reminder of fragile gas market

TIM BRADNER
ECONOMY

(02/12/11 20:01:39)

The announcement last week by Conoco Phillips and Marathon Oil that they will close the Kenai natural gas liquefaction plant is another rude reminder of how fragile our petroleum economy has become.

I wasn't surprised about the decision except that I thought it would happen in 2013, when a federal LNG export license expires. But what disturbed me was that the closure now is caused partly by the inability of the companies to get the right price in the Asian LNG market for the small volumes they would ship.

There is now a lot of LNG on the world market and prices are dropping, Conoco told me.

That is profoundly disturbing because it means that one of our options for developing North Slope gas, building a pipeline to a new LNG plant in Valdez or Cook Inlet, might be closed off by changes in the market.

There's more to the decision by the companies, of course. Declining production of natural gas from Cook Inlet wells that supply the plant also weighed in.

This is just one more of a spate of disturbing developments, which include Shell's delay in being able to explore the offshore Arctic, BP's delay of its new Liberty project and Conoco's inability to get access to new oil and gas discoveries in the National Petroleum Reserve-Alaska due to a permit dispute with a federal agency.

Let's add to this list the close call we had over the possible freezeup of the trans-Alaska oil pipeline last month, when the pipeline shut down for several days.

NEW DEVELOPMENTS

Not everything in the oil patch is looking so glum, though.

Eni Oil and Gas is about to bring its new Nikaitchuq field in the Beaufort Sea into production, which will put new oil into the pipeline. Also on the Slope, Exxon Mobil continues development of the Point Thomson gas and condensate field east of Prudhoe Bay.

BP eventually will develop Liberty -- it's just a delay -- and I believe Shell and Conoco, with patience and perseverance, eventually will get access to promising areas these companies are interested in.

In Cook Inlet, new state exploration incentives are resulting in new exploration wells being drilled for gas and for a jack-up rig to be brought in to explore promising areas. And, there's a new company acquiring acreage in Cook Inlet, with plans to drill: Apache Oil and Gas.

So the game isn't over.

VALUE-ADDED INDUSTRY

Still, the early loss of the LNG plant should be a wakeup call for Alaskans because that plant, and the Kenai fertilizer plant that closed a few years ago, not only were industrial anchors of the Kenai Peninsula economy, they were shining examples of industry making value-added products from Alaska resources.

Let's reflect on this: The LNG plant and fertilizer plants were creative and innovative, and hugely successful, ventures by industry to take large gas reserves discovered in Cook Inlet in the 1960s, for which there was no market except for then-small local utilities, and make new products (fertilizer) or to put the gas into a form where it could be shipped to market (LNG).

The LNG venture was particularly daring because very long-distance international shipments of liquefied gas had never been done. The Kenai-to-Japan shipments were the world's first.

Looking for markets for their stranded gas, Phillips Petroleum (now Conoco Phillips) and Marathon Oil convinced major Japanese utilities that importing LNG from Alaska would work. The Japanese had never imported LNG, so this was a radical idea. They were attracted to the idea of using clean-burning gas for power generation rather than oil or coal.

Technology innovations were also involved. Phillips had developed a new design for manufacturing LNG, which was used for the first time in the Kenai plant. However, no LNG ships of the size and type needed existed. These had to be designed and built.

Kenai LNG was Phillips' biggest single investment at the time, and it was a gamble. It paid off, though. Once the Alaska plant set the example, other companies followed. Shell soon signed contracts to develop and sell LNG from gas fields in Brunei, in Southeast Asia, and the development of the world LNG industry followed.

Meanwhile, LNG ships have sailed regularly from Kenai to Japan from 1969 until now.

NEW OPPORTUNITIES

The history of this is worth pondering now because it shows what even relatively small companies (as Phillips and Marathon were then) can do when presented with challenges.

Today we have companies trying to figure out what to do with large North Slope gas reserves that are also stranded. There are big challenges with new competition from Lower 48 shale gas and now a flood on LNG on world markets.

Maybe the idea of building pipelines to move this gas is becoming obsolete. Perhaps we need to make something more valuable from the gas, a different kind of product.

A role for the state might be to encourage new thinking and new ideas for commercializing North Slope gas. Maybe we're too focused on old ideas.

It was a different time, but the innovation of Phillips and Marathon more than 40 years ago showed the power of new ideas.

Let's do it again.

Tim Bradner writes for an Alaska economic reporting service. He also consults for private clients and writes for business publications. His opinion column appears every month in the Anchorage Daily News.

State plans to aid workers hurt by closure of Kenai LNG plant

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JUNEAU -- A Kenai lawmaker says the state plans to offer help to the workers and families affected by the impending closure of that community's liquefied natural gas plant.

Republican Rep. Kurt Olson says he met with the state labor commissioner and governor's office on the issue of state assistance. Olson says the preliminary plan is to offer re-employment workshops and job search services for workers and family members who want that help.

Conoco Phillips and Marathon Oil Corp. announced Wednesday that they're closing the plant after more than 40 years in operation, citing market conditions. The plant exported liquefied natural gas to Japan. A Conoco official said the closure will affect about 30 employees. Contractors also have worked at the plant, though the number has fluctuated.

-- *The Associated Press*

Bill advanced by Senate panel seeks 120-day session in '12

The Legislature would convene for a 120-day session next year under a measure advanced by a state Senate panel Thursday.

The bill, sponsored by Republican Senate President Gary Stevens, calls for the Legislature to meet for the current 90 days during odd-numbered years and for 120 days in even-numbered years.

Voters passed the 90-day structure in 2006. Stevens told the Senate State Affairs Committee it isn't working. He says it gives more power to the governor. The measure now goes to the Senate Finance Committee for consideration.

-- *The Associated Press*

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