

Chinese seen as potential Alaska natural gas customer

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JUNEAU -- Alaska officials are looking to China and what some believe will be that country's strong demand for natural gas to help the state advance its long-held pipeline dreams. Gov. Sean Parnell has invited an official with China's National Energy Administration and others to visit Alaska, following up on a trade mission Lt. Gov. Craig Campbell helped lead to China in December. Campbell returned from that trip believing the rapidly developing communist nation, already a leading export market for such Alaska products as seafood, zinc and lead, could also become a major investor in or export market for Alaska natural gas or its byproducts.

The potential for Alaska is huge, said Harold Heinze, chief executive of the Alaska Natural Gas Development Authority, who was with Campbell on the trip. He sees several possibilities for the Chinese, from building a plant to convert ethane to pellets that would be used in manufacturing to signing on with a major natural gas pipeline project. Ethane is a component of North Slope natural gas that can be used for plastics.

"One thing you look for in a partner is, do they have money and do they have more money than you. And these guys have money," he said, adding: "They're major players in the world." Heinze's state agency was set up seven years ago to pursue a North Slope gas-export project.

In theory, if the interest and money are there, that could also spur progress on a pipeline that many Alaskans have long looked to for new jobs, reliable energy and as a source for more state revenue amid projections of slumping oil production.

But there are plenty of uncertainties, from permitting and pricing -- how gas holds up against other energy sources -- to what China's true long-term demands for gas will be over alternatives like coal, and the level of competition Alaska would face from other producers to meet the gas demand.

And there are the various pipeline options and plans -- including routing a pipe from the North Slope into Canada rather than to Valdez -- each with diehard constituencies and questions about their viability.

Estimates released last month by the companies working with the state to advance a major line put the project costs at \$20 billion to \$41 billion, depending on the route

One route, the cheaper option, estimated at \$20 billion to \$26 billion, would run from the harsh North Slope to Valdez, where gas would be superchilled into a liquid in a plant built for an additional cost, and then shipped elsewhere, possibly overseas.

The costlier option envisions a pipeline going from the North Slope to Canada, where gas could move on existing systems to North American markets.

But there have been numerous other proposals through the years to move North Slope gas, even a

bullet line to move some gas to Fairbanks and Southcentral Alaska for local use.

"The Chinese may, because they're interested in resources, they may be able to do things and invest in things that don't look economic in market terms," said James Jensen, a consultant in natural gas economics.

"In fact, if the Chinese said, 'Gee, if we could get this thing going and we could tie up a certain amount of American gas for our own use,' they might do something that I wouldn't think would be economic," he said. "But they might do it."

Officials with TransCanada Corp. of Calgary, Alberta, and Texas-based Exxon Mobil Corp., say the project is economically viable and hope to move by May toward an "open season," when they can court gas producers and try to secure commitments for shipping deals.

The companies, in a recent filing with federal regulators, estimated 35 trillion cubic feet of proven gas reserves on the North Slope.

A TransCanada spokeswoman declined comment on whether there'd been interest from China on the project, saying: "All discussions with individual customers are confidential."

A rival project by Britain's BP and Houston-based Conoco Phillips is also moving ahead.

Campbell said he's not advocating any specific project, but he'd like the Chinese officials to visit "earlier, rather than later." They've indicated a "huge demand," for natural gas, he said, and Alaska wants a market.

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