SCOMM

148:21

Alaska State Legislature

Rep. Kohring-Chair
Rep. Olson- Vice-Chair
Rep. Dahlstrom
Rep. Doogan
Rep. Kawasaki
Rep. Ramras
Rep. Samuels

State Capitol, Room 124
Juneau, AK 99801-1182
Rep. Vic Kohring, Chair
(907) 465-2186

House Special Committee on Oil and Gas

Fax

To: Don Bullock
Fax #: 465-2029 Number of pages including cover: 5
Fm: Jim Pound
Date: May 3, 2007, 4:46 PM
Re: Final CS for HJR 12 25-LS0188\E as amended

Please amend the above referenced legislation and prepared in final. See hand mark up version attached.

Page 1, Line 14

Slope Borough, and **many of the** residents of the North Slope Borough,….

Page 2, Line 17

…is declining [*by approximately 10 percent a year*] ;

Page 3, Line 6

…Arctic costal plain, [that it can safely conduct] **is capable of conducting** oil and gas….

Page 3, Line 8

…the state will **strive to** ensure the continued health….

Thank you

ALASKA STATE LEGISLATURE

Juneau
State Capitol Bldg. Rm 422
Juneau, AK 99801-1182
Phone (907) 465-4930
Fax (907) 465-3834
1-800-331-4930

Anchorage
716 W. 4th Avenue
Anchorage, AK 99501
Phone (907) 269-0174
Fax (907) 269-0177

Representative Berta Gardner

House District 24

March 26, 2007

Sponsor Statement

HJR 13: Exporting Cook Inlet Gas

"Urging the attorney general, the producers of natural gas in the Cook Inlet region, and the Regulatory Commission of Alaska to work to secure long-term and affordable supplies of natural gas for the people and businesses of the state."

HJR 13 is a resolution spotlighting the potential energy crisis looming over Southcentral Alaska. Natural gas reserves have been declining over the past couple of decades, raising the real possibility of acute shortages in the near future. With about two-thirds of all Alaskans relying on Cook Inlet natural gas for heating their homes or for generating electricity used in their residences and businesses, the effects of any natural gas shortage would have widespread repercussions. Already prices have nearly doubled over the past five years, creating real hardships for many railbelt businesses and consumers. More severe shortages might be a stimulus to even steeper price rises.

More than a third of Cook Inlet natural gas is currently exported to Japan, an amount exceeding that used in Alaska for both residential heating and electricity generation. The federal export license is due to expire in 2009, and its extension is up for consideration, with the comment period now open. While drilling activity has increased over the past two years and may serve to avert the crisis, there is no guarantee that Southcentral Alaska will not face a major supply crisis within a few years. Even if the odds of running out are relatively low, the consequences for businesses and consumers are potentially severe.

While there are valid concerns about exporting the gas that Alaskans may need for local heating and power, any solution must recognize the importance of bringing future gas supplies to Southcentral Alaska. Retaining the existing infrastructure of commercial gas usage may be a key to achieving this goal economically.

HJR 13 requests that the natural gas producers in Cook Inlet work more closely with the utilities such as Enstar to protect affordable natural gas for local consumption. The resolutions call on the Attorney General to evaluate whether continued export of natural gas from Cook Inlet to Japan is in the best interests of Alaskan consumers. They also urge the Regulatory Commission of Alaska to expedite review of any contract that will affect affordable gas to Alaskans.

Please join me in supporting HJR 13.

HOUSE COMMITTEE REPO

(7)
Date Referred to Committee: March 12, 2007 **FURTHER REFERRALS: Labor and Commerce**

Date of Committee Action: May 03, 2007

The HOUSE SPECIAL COMMITTEE ON OIL AND GAS considered: **HJR 13**

HOUSE JOINT RESOLUTION NO. 13 **NATURAL GAS FOR STATE RESIDENTS**
Urging the attorney general, the producers of natural gas in the Cook Inlet region, and the Regulatory Commission of Alaska to work to secure long-term and affordable supplies of natural gas for the people and businesses of the state.

Recommends it be replaced with [ ] HCS *or* [ ] CS *for* ______________________ (________)
For Senate Bills with new title: [ ] Technical Title [ ] New Title: HCR_______ **[ ] Same Title [ ] New Title**

[ ] attach amendments
[ ] add new referral to ___________Committee
[ ] Letter of Intent__________Committee

List of Abbrev for Depts.:
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LWF
LAW
LEG
MVA
DNR
DPS
REV
DOT
UA

***NEW* FISCAL NOTES**
*Assigned by Chief Clerk's Office

List by Dept(s):	*FN#	Fiscal	Indet.	Zero
Lt Gov				✓

***PREVIOUS* FISCAL NOTES**

List by Dept(s):	FN#	Fiscal	Indet.	Zero

Signing with recommendations	**Printed Last Name**	**DP**	**DNP**	**NR**	**AM**
Mike Doogan	DOOGAN	X			
[illegible]	KAWASAKI			X	
	OLSON		X		
Chair: Vic Kohring	Kohring			X	
Chair:					

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number:	HJR013-OOG-LGO-4-10-07
Bill Version:	HJR 13
() Publish Date:	

Revision Date/Time (Note if correction):		Dept. Affected:	OOG
Title	Resolution urging the attorney general...to work to secure long-term...supplies of natural gas..."	RDU	Office of the Lt. Governor
		Component	Office of the Lt. Governor
Sponsor	Representatives Gardner, Buch, Gara, Crawford		
Requester	House Oil and Gas Committee	Component No.	11

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This resolution will have no fiscal impact on the Office of the Lt. Governor.

Prepared by:	Gail Fenumiai, Asst. Administrative Director	Phone	465-3885
Division	Division of Administrative Services	Date/Time	4/10/07, 12:18pm
Approved by:	Jim Merriner, Chief of Staff	Date	4/10/2007
Agency	Office of the Lt. Governor		

(Revised 9/18/2006 OMB)

CHUGACH
POWERING ALASKA'S FUTURE

March 22, 2007

Jason Brune, Executive Director
Resource Development Council for Alaska
121 W. Fireweed, Ste. 250
Anchorage, AK 99503

Dear Jason,

Chugach Electric Association is aware that Marathon Oil and ConocoPhillips have asked the Resource Development Council to support their application for a 2-year extension of their export license for natural gas from Cook Inlet. We appreciate your solicitation of member comments as the RDC leadership debates what the organization's position should be on this issue.

This topic is critically important to Chugach. Chugach is a not-for profit, member-owned electric cooperative that happens to be Alaska's largest electric utility. Our purpose is to provide our members with safe, reliable, competitively priced electric service. Chugach provides power to Alaskans throughout the Railbelt through retail, wholesale and economy energy sales.

Natural gas is key to our operations and to our customers. In 2006, 90 percent of the kilowatt-hours Chugach sold came from burning natural gas, with the other 10 percent from hydroelectric resources.

Chugach buys gas from four separate suppliers under four separate contracts, each negotiated in the late 1980s. Marathon and ConocoPhillips are two of our suppliers. Each contract is for a volume of gas rather than a finite period of time. Current consumption estimates indicate that our fuel needs will be unmet beginning in the year 2010. Chugach has been working for some time to secure new gas supplies – with our existing suppliers and others. These negotiations continue today.

We would like to be supportive, but the needs of Chugach customers must continue to be our highest priority. Chugach supported the last extension request, and recognizes that another extension could preserve valuable jobs and continued benefits to the economy. We also believe that the extension could promote additional exploration and lead to greater proven reserves in Cook Inlet.

However, until we have secured reasonably priced new supplies of gas on behalf of Alaska's electric customers, Chugach cannot support an extension of the LNG export license for Marathon and ConocoPhillips. Once our negotiations have been concluded, we will be glad to consider what our position on the issue should be at that time.

We would be happy to discuss this issue and our position further with the RDC Executive Committee or others if requested.

Sincerely,

FOR

William R. Stewart
Chief Executive Officer

Chugach Electric Association, Inc.
[illegible] Anchorage, Alaska 99519-6300 • (907) 563-7494 Fax (907) 562-0027 • (800) 478-7494
www.chugachelectric.com • info@chugachelectric.com

Barbara Williams
Alaska Public Interest Research Group
P. O. Box 101093
Anchorage, Alaska 99510
907-278-3661

March 20, 2007

RE: HJR 13, High Cost of Heating for Consumers

We appreciate the invitation to speak to you. We have heard from consumers that they are having a hard time adjusting to the high cost associated with natural gas. I know of one family in Palmer who has had no natural gas all winter and have resorted to other heating measures because they cannot afford to heat their home. They have been forced to make the choice of rent and food or natural gas. We have heard from disabled, impoverished, and seniors. The general message is that the high cost of gas is making many people and families make choices between food, rent, medicines, and other needs and sometimes resort to juggling expenses just to be able to afford the current heating costs.

Many people are not qualifying for the heating assistance programs that are disabled and poor. Welfare does not cover high fuel costs, and if they offer money for utilities it is on an emergency basis, and more red tape. We have had reductions in or longevity bonuses for the seniors, fluxations in our permanent funds and other income sources. Many people who live paycheck to paycheck are struggling to keep up with the higher energy cost.

My own experience has been that my heating bills have doubled since last year. We live on a small income and we have also had to adjust our expenses to deal with our own costs doubling. Last year our bill was $250.00 in the winter months and this year it has run well over $500.00 per month most of the winter. It is true that our state needs to make money exporting the gas but we need to take care of our own supply and demand first before going to the market.

Web posted Friday, March 23, 2007

Gas exports irk Agrium workers

Kenai LNG supporters, Agrium employees square off over license extension

By PHIL HERMANEK
Peninsula Clarion

A handful of Agrium employees were at odds with Kenai Liquefied Natural Gas facility executives over a resolution being considered by the Kenai City Council on Wednesday.

The proposed resolution threw city support behind an application by ConocoPhillips and Marathon for a U.S. Department of Energy two-year extension of the export license for the Kenai LNG facility.

Primary customers for LNG from Kenai have been two major Japanese utility companies in Tokyo. The current license ends March 31, 2009, and the application would extend the export license through March 31, 2011.

Seventy percent of the feedstock for the LNG plant comes from ConocoPhillips; 30 percent is from Marathon.

The Agrium workers said they were opposed to the export license extension and believed that any natural gas being liquefied for export meant less gas available to Agrium, which uses gas as a primary feedstock for its fertilizer products.

In addition to endorsing the two-year extension, the council's resolution supported the continued operation of the LNG plant, Agrium and the Tesoro refinery.

LNG Plant Manager Lindsey Clark thanked the city for the resolution and said, "It supports our entire industry."

Responding to a question from council member Rick Ross, Clark said the plant directed some gas to the local market this winter for home heating, and said, "Should we get down the road to where we are not able to export, the facility could turn around to import LNG."

Robert Cox, who identified himself as an Agrium employee, said, "I do not support the extension of the LNG contract.

"If they sell to foreign customers, then turn around and import (LNG), it's gonna cost more to the community," Cox said.

Another Agrium worker, who identified himself as Chris Bouche, said he believed the natural gas supply issue was more a political shortage than physical.

"If Unocal still had a plant out there, there wouldn't be a gas issue right now," he said. "Are the oil and gas companies colluding to get a higher price ... I say they are."

Agrium employee Jim Cooper said Agrium has been trying to get natural gas from ConocoPhillips, but has been told all of ConocoPhillips' gas supplies are committed.

"We've lost a lot of jobs ... good jobs," Cooper said. "We still have 150 jobs.

"I'm pretty sure Agrium's people are working with ConocoPhillips, but I'm opposed to the extension," he said.

Jim Kauffman, Agrium employee, said he was against the city's "strong support" of gas exports.

"Are we going to continue shipping reserves out of state at a cheaper price when we don't have enough?" he asked.

Marathon executive Lynden Ibele said Marathon has an interest in the LNG plant and sells to all industrial users in Cook Inlet.

"If the industrial markets disappear, it would force Marathon to cut its employees by 50 percent," Ibele said.

Clark told the council that the Department of Energy "looks to see if we have enough reserves to meet utility and industrial contract obligations."

After Ross offered an amendment to the proposed resolution suggesting the city support the extension as long as the DOE determines the gas being exported is in excess of the residential, commercial and industrial needs of the community, the resolution passed unanimously.

Phil Hermanek can be reached at phillip.hermanek@peninsulaclarion.com.

Bart Watson

From: Rep. Berta Gardner
Sent: Tuesday, March 27, 2007 1:26 PM
To: Robert Cox
Subject: RE: Lng Extension

Follow Up Flag: Follow up
Flag Status: Yellow

Thank you very much, Robert, for your letter. I can see that you have a good understanding of the complexity of the issue. Without taking a position one way or the other, my resolution simply asks that the Governor and the RCA explore the entire question of whether exporting our gas is a good move for Alaska.

I'm printing out your comments to include in the bill packet, and I'm looking forward to the hearing!

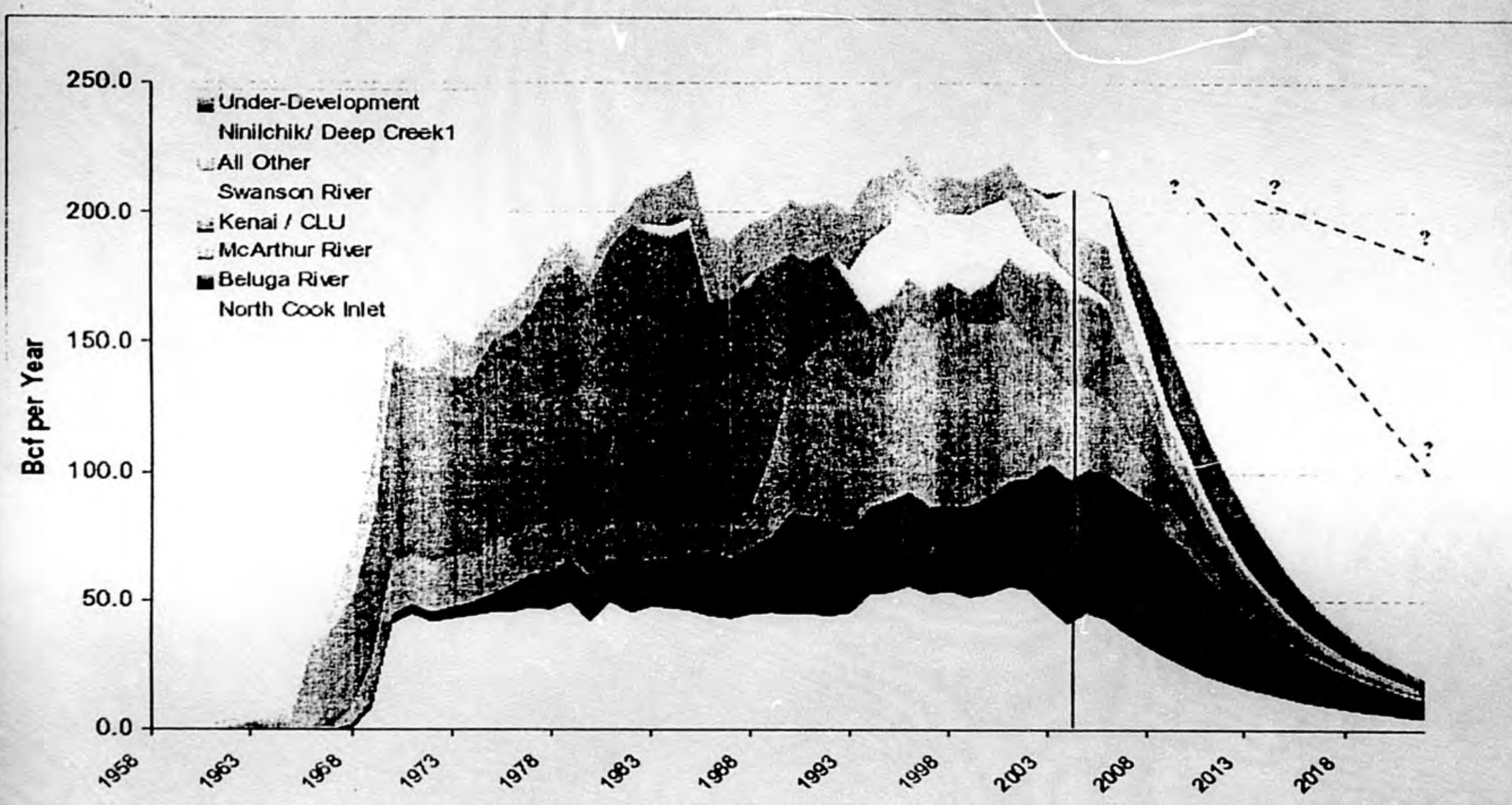
Best regards,
Berta

My contact information in Juneau:
The Alaska Legislature
Office of Representative Berta Gardner
State Capitol
Juneau, Alaska 99801-1182
Phone: 907-465-4930
Toll free phone: 1-800-331-4930
Fax: 907-465-3834

-----Original Message-----
From: Robert Cox [mailto:RCox@agrium.com]
Sent: Tuesday, March 27, 2007 1:22 PM
To: Rep. Berta Gardner
Subject: Lng Extension

Representative Gardner,My Name is Robert Cox I'm a citizen of the Kenai ,and also The State of Alaska.I want to thank you for Resolution No. 13 because it addresses the needs of state and comunity first and fore most. I'am also an employe of Agrium. I understand the complexity of gas issues better than most because of its affect on my lively hood for the last four years. But disregaurd the fact that I work for Agrium, and look at the the real issues of a depleting gas reserve. Conoco has stated they have 8 to 10 years left., and they could use the LNG plant to import gas into the state down the road. I'm sure you are aware of the higher cost that could bring to the state user, be it utilitys ,commercial or industrial . International prices are considerbly lower than domesic prices because of the stranded gas act which is tied to lower 48 prices which we deal with here. To answer the question of free enterpise all utilities are regulated for need. Other wise we could sell all our natural resources to the highest bidder and when we decided we needed some, buy them back at a higer price. And when jobs are mentioned Agrium employs , 152 working in good paying jobs where as Conoco LNG have about 50 and we are running only 2 plants where in the past we were able to run four with twice as manys empolyees. With this said we all support Industry on Kenai which Includes more than just Conco ,there is C hevron,Tesoro,BP,Agrium,XTO,and many more I'am sure I haven't mentioned.So Thanks again for your support for the Great State of Alaska. Respectfully Robert L. Cox, a concerned citizen.

Cook Inlet Historic & Forecasted Natural Gas Production, 1958-2025



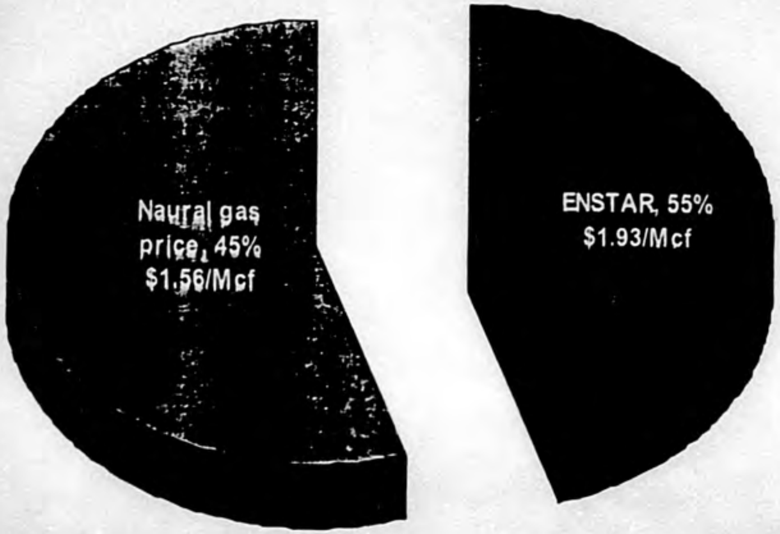
Source: Division of Oil & Gas Feb. 2007 Report

All Our Energy Goes Into Our Customers

ENSTAR
Natural Gas Company

Cost Comparison
Percentage of Annual Bill

Cost Comparisons 1996
Average bill = $3.49/Mcf



Cost Comparisons 2006
Average Bill = 6.70/Mcf

*Average Consumption per household in 1996 = 188 Mcf

*Average Consumption per household in 2006 = 177 Mcf

All Our Energy Goes Into Our Customers

ENSTAR
Natural Gas Company

Natural Gas Cost and Supply

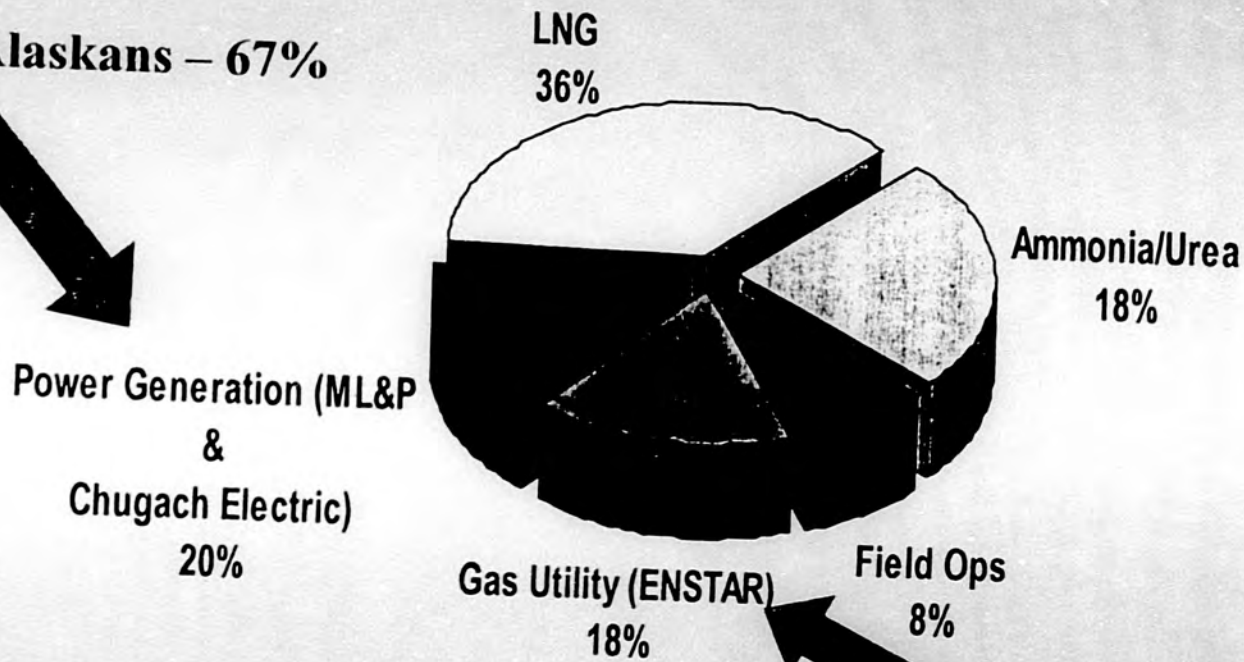
Weighted Cost @ $7.03/mcf
Price/Mcf as of Nov. 2006

All Our Energy Goes Into Our Customers

ENSTAR Natural Gas Company

Cook Inlet Natural Gas Usage by %

473,000 Alaskans – 67%



340,000 Alaskans - 50%

Source: Division of Oil & Gas, Feb. 2007 Report

Exploration History

- Exploration of Cook Inlet, Katalla, Alaska Penin. in early 20th century

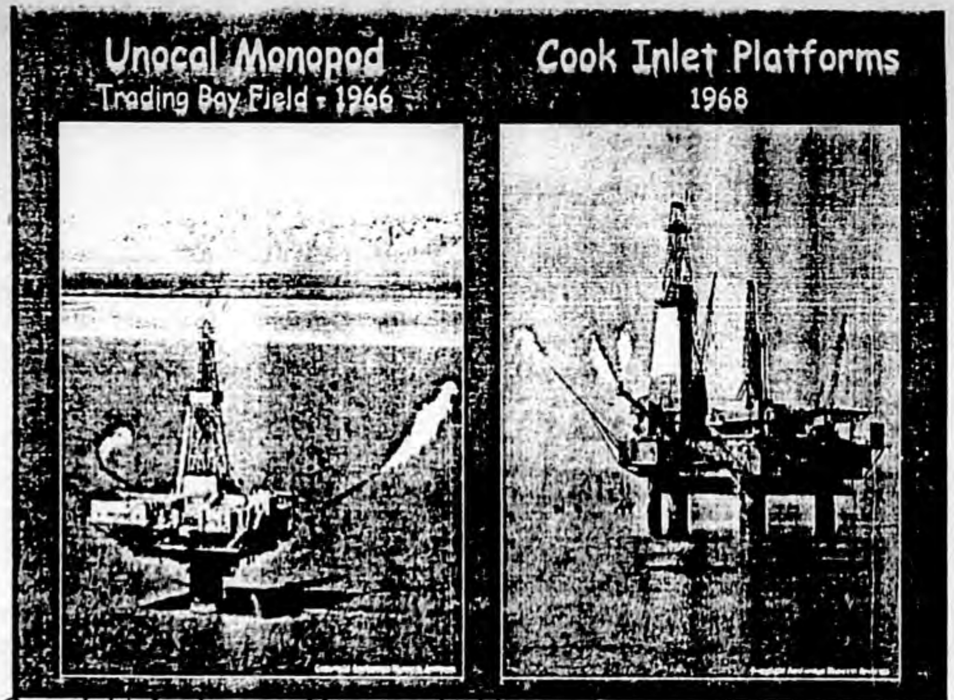
  9 oil exploration wells in CI by late 1940s

- Renewed interest in 1950s
  - 16 oil exploration wells
  - 2 discoveries
    - Swanson River oil field – 230 mbo
    - Kenai gas field – 2,700 bcf

- Boom years – 1960 to 1969
  - 149 oil exploration wells
  - 5 gas wells
    - 6 oil fields totaling 1.1 bbls oil
    - 12 gas fields totaling 5,400 bcf

- Through 2006 – 262 oil exploration wells
  73 gas exploration wells
  9 oil fields – 1.4 bbls
  22 gas fields – 8.9 tcf

Source: Steve Davies, AOGCC



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Gas Supply vs Gas Demand

- Nearly all gas fields in CI discovered as by-product of oil exploration
- Very little exploration for gas
- Gas deliverability shortfalls as early as 2008
- Declining proven reserves combined with higher prices......

Remaining Potential

- Tertiary section un-explored for strat traps
- Coal is ubiquitous in Miocene through Pliocene strata – no major effort yet to explore for biogenic gas
- DOE estimates ~1.8 tcf of undiscovered gas remains in upper Cook Inlet
- Mesozoic plays are largely un-explored
- Discovered recoverable oil volume estimated to represent 4% of total generated (Magoon, 1994)

Sarah Palin
Governor
P.O. Box 110001
Juneau, AK 99811-0001

STATE OF ALASKA
OFFICE OF THE GOVERNOR

Meghan Stapleton
Press Secretary
907 465 4031
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Press Release

FOR IMMEDIATE RELEASE 07-076

Governor Palin Supports LNG Export License Extension if Consumers Protected

April 9, 2007, Juneau, Alaska - Governor Sarah Palin today has told federal energy authorities she would support a two-year extension of the Kenai liquefied natural gas plant's export license, if its owners agreed to certain conditions aimed at protecting the region's utility gas consumers, the economy and Cook Inlet's gas industry.

ConocoPhillips Alaska Natural Gas Corporation and Marathon Oil Company are joint owners of the Nikiski LNG terminal, exporting Cook Inlet gas to Japan under a federal export license due to expire in 2009. Their January application to the Department of Energy for a two-year extension, combined with recent tightening supplies and rising prices for gas, have raised fears of a gas shortage in Southcentral Alaska.

Governor Palin has directed the State to intervene in the license application to ensure conditions are imposed on an export extension to address those concerns. The Department of Law filed the necessary documents with the Department of Energy's Office of Fossil Energy today.

"While I support an extension of LNG export, I have concerns that the interests of Alaskans may be jeopardized in granting the blanket authorization unless several criteria are met," Governor Palin wrote to the Department's Office of Fossil Energy.

The Governor's conditions include ensuring that the companies have binding contracts in place to guarantee adequate supplies of gas for domestic utilities; requiring the owners to continue exploring for new gas to replace depleted reserves; and allowing access for third-party gas producers to the LNG plant to encourage competition and new exploration.

"The conditions and license extension will ensure, for the long run, a reliable and secure supply of energy to the more than 300,000 Alaska residential and commercial gas users that depend on Cook Inlet natural gas resources," Governor Palin said.

Cook Inlet holds an estimated 1.6 trillion cubic feet of proven gas reserves, and an estimated 1.7 trillion cubic feet in undiscovered resources. More than a third of the basin's production goes to large industrial users like the LNG plant and Agrium's fertilizer plant. With residential gas prices nearly doubling in the last five years, residents are concerned for the security of their long-term supplies of energy.

The Governor's conditioned approval is aimed at addressing the underlying causes of recent concerns over Southcentral Alaska's gas supply – achieving a balance between the supply certainty needed by Southcentral utilities and their ratepayers, and the need for competition and new exploration and development in the region.

Starting operations in 1969, the Nikiski facility was the first LNG terminal in North America. It provides 58 direct jobs, and contributes an estimated $71 million to the state's economy. The jobs, property tax revenue, and economic stability make it a mainstay of the Kenai Peninsula economy.

FOR MORE INFORMATION, CONTACT:

- Kevin Banks, Acting Director of Division of Oil and Gas, 269-8800
- Daniel Patrick O'Tierney, Chief Assistant Attorney General, (907) 269-5100

ATTACHMENTS:

- Letter, Governor Sarah Palin to U.S. Department of Energy, April 6, 2007

###

If you would like to see a signed copy of the Motion to Intervene, please let us know. It is 6.4MB and is proving to be too large to distribute to everyone, at this point in time.
Thank you.

adn.com
Anchorage Daily News

Print Page | Close Window

Chevron intends to invest in Alaska

INCREASE: Company says it will grow in Inlet and other oil and gas fields.

By ALAN BAILEY
Petroleum News

(Published: March 30, 2007)

When Chevron took over Unocal in 2005, there was much nail-biting on the Kenai Peninsula about what might happen to Unocal's Cook Inlet oil and gas fields.

Announcements by Chevron since then have shown that nobody need have worried.

Steve Wright, Chevron's Alaska asset development manager, recently confirmed his company's bullish views on the Cook Inlet and Alaska.

"Chevron's business philosophy now in Alaska is that we intend to invest and grow here in the state and are committed to be an integral part of the state's energy future," Wright said at a meeting of the Alaska Support Industry Alliance's Kenai chapter.

"We really do have a new critical mass after we have combined the legacy Chevron and Unocal portfolios here in state."

Chevron now operates three offshore Cook Inlet oil fields and the Swanson River oil field on the Peninsula. The company operates five onshore natural gas fields and two gas storage facilities. It also owns interest in two other gas fields that another company operates. In addition, it holds 1 percent to 10 percent interest in some major North Slope fields, but doesn't operate any of them.

STEM THE OIL DECLINE

"One of our primary focuses now is stemming the decline of the Cook Inlet oil production and extending the life of these mature fields here in the Inlet," Wright said. "Our commitment is to invest to maintain current production."

There's even a possibility of increasing Cook Inlet oil production, he said.

A key to stemming the oil decline is an oil field redevelopment drilling program that Chevron hopes to start later this year. That program will target known oil pools between existing wells, Wright said.

But improved techniques for injecting water into the fields to flush out more oil also will increase oil recovery substantially, he said.

And Chevron plans to use state-of-the-art drilling technology to extend field boundaries. Critical to that endeavor will likely be the use of extended reach directional drilling to penetrate horizontally through oil pools.

"We've found in many areas of the world this is really a key to unlocking some of the old mature assets in our portfolio," Wright said.

Chevron also plans to do some drilling deep below the oil and gas fields.

"We think there's a lot of additional deeper potential under existing fields that has yet to be developed," Wright said.

With the Cook Inlet natural gas market in transition between oversupply and undersupply, Chevron also plans to augment its gas production. The company thinks that there is an untapped gas accumulation above the Granite Point oil field and that there are opportunities for gas field development on the Kenai Peninsula. The company also plans to continue the development of its existing gas fields.

Gas storage in the Cook Inlet area is also becoming critical to ensuring adequate gas supplies during peak winter demand.

"We can't develop fields fast enough to supply all that peak winter demand directly out of existing fields, so we use storage as a cushion," Wright said.

MANY CHALLENGES

But Cook Inlet remains a challenging and expensive region for oil and gas work. The severe winter climate makes travel difficult, and mobilizing supplies and equipment to remote locations often proves difficult.

Offshore, the 20- to 50-year-old oil platforms are showing their age, with some equipment needing replacement before Chevron can start its redevelopment efforts.

Another issue is the platform drilling rigs.

"We actually own more drilling rigs than any other company in state," Wright said.

Unfortunately, however, most of the rigs have been mothballed for years and are no longer in a suitable condition for use.

One option that Chevron is investigating is developing a mobile rig that could be moved from platform to platform.

RECRUITING WORKERS

With an aggressive Alaska program of exploration and development ahead, Chevron sees work force recruitment and development as a major issue.

"We've got to have the manpower, the skill and expertise to conduct those types of programs efficiently and economically," Wright said. "Internally we're facing a lot of competition for manpower. Chevron has a number of major capital projects worldwide that are competing for the technical resources that we're competing for."

An aging work force, including many workers who joined Chevron in the 1970s and 1980s, is compounding the problem -- as much as half of Chevron's technical work force will retire in the next 10 to 15 years, Wright said. And Chevron has been actively seeking new oil industry recruits at college campuses.

"There's going to be a huge gap, a critical need for new talent to come in and pursue the opportunities that are currently being identified and developed," Wright said.

"The opportunities over the next 10 to 20 years for technical professionals coming into the oil and gas industry will be astounding ... just because of the number of openings that are going to develop."

Work force issues are also hitting the contract services in Alaska, especially with the heightened level of exploration activity on the North Slope, Wright said.

"So we have to plan and pace our work to make sure that we utilize the contracting work force effectively, that we don't overtax the system in trying to conduct a lot of work in the Inlet when the resources aren't available because they've moved up to the Slope," Wright said.

"Chevron sees a bright future here in Alaska and we look forward to working together with you all to realize that vision," he told the Alliance audience.

Print Page | Close Window

Sarah Palin
Governor
GOVERNOR@GOV.STATE.AK.US

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State of Alaska
Office of the Governor
Juneau

April 6, 2007

Office of Oil and Gas Global Security and Supply
Office of Fossil Energy
U.S. Department of Energy
Forrestal Building, Room 3E-042, FE-34,
1000 Independence Avenue, SW.
Washington, DC 20585

RE: OFE Application for Blanket Authorization to Export LNG from Kenai Alaska

To Whom It May Concern:

My administration supports conditional approval of the application for blanket authorization to export LNG from Kenai Alaska submitted by ConocoPhillips Alaska Natural Gas Corporation and Marathon Oil Company. To this end, I have asked my Attorney General, working in conjunction with the Department of Natural Resources commissioner, to file a motion to intervene over the application. While I support an extension of LNG export, I have concerns that the interests of Alaskans may be jeopardized in granting the blanket authorization unless several critical conditions are met. They are:

1) All natural gas supply needs for domestic utilities are under contract;
2) Continued applicant investment in projects that target replacement gas reserves; and
3) Open access to Kenai LNG Plant gas purchases for third-party producers.

The Department of Energy's approval of the application for Blanket Authorization to Export LNG coupled with the adoption of these conditions will ensure a reliable and secure supply of energy to the utility ratepayers and other commercial gas users in Southcentral Alaska for the long run and maximize the benefits of the Cook Inlet natural gas resources for all stakeholders. These conditions achieve 1) sustainable gas supplies for local utility ratepayers, 2) reserves replacement under continued LNG exports, and 3) market access for potential exploration and development investment in the Cook Inlet.

Ensuring local public utility gas supply requirements are met is essential. But in addition, I also recognize that a diverse, large scale, and competitive oil and gas sector in the Alaska Cook Inlet basin is vital to the economy of Alaska's Southcentral region, where nearly two-thirds of the state's population resides. The Kenai LNG Plant is central to the strength and sustainability of the Cook Inlet basin's energy sector and regional economy. It provides critical deliverability backstopping services to public utilities that rely on Cook Inlet gas during winter peaking supply shortfalls. Further, the scale and stability of natural gas usage at the Kenai plant provides a vehicle to preserve the integrity of the existing resource base and functions as an enormous potential driver for exploration and development investment. This applies to both the Kenai plant owners, ConocoPhillips and Marathon, as well as to other basin producers and explorers that seek the opportunities to monetize investment in a closed basin with limited market opportunities.

The declining trend in the natural gas reserves and rising prices signal the basin's transformation from longstanding abundant natural gas supply to that of a tightened demand-supply gas balance. Naturally, these factors have raised widespread concerns over local energy costs and the sustainability of gas supply for local use under continued liquefied natural gas (LNG) exports beyond 2009. It is a priority of my administration to pursue policies that enhance competition and industry diversity, and seek balance in the mix of energy alternatives and opportunities. Success in achieving this balance should give rise to sustainable gas supply and price stability for all users.

It is in this context that any approval of the LNG authorization must be conditioned. The first condition speaks directly to the necessity of meeting local utility full requirements on a year-round, day-in/day-out basis. Cook Inlet producers must continue to treat the domestic need as first priority, even to the extent of curtailing their affiliated industrial plant operations during periods of peak local utility gas consumption. This requirement must be explicit and unequivocal, just as with the federal authorization to export natural gas.

The second condition is built on the notion that the basin's existing stock of proved reserves should, at minimum, be kept whole as a condition of extended LNG export. The privilege of continued LNG exports must be accompanied with the applicants' commitment to replenish the exported volumes of gas. Maintenance of the balance in production and reserves replacement should keep the Kenai LNG Plant in business for the longterm, which serves the interests of utilities, their ratepayers, and other commercial users.

Lastly, access to the LNG Plant and the markets it serves is essential for the growth and competitiveness of the gas market in the Cook Inlet. The importance of a competitive market applies not only to the sale of produced gas but also to the unimpeded flow of private investment into the basin to finance new exploration and development. The Kenai LNG Plant has direct access to Pacific Rim markets and serves as a potential conduit linking other basin producers, including new entrants, to expanded market opportunities. Open access to the Kenai LNG plant will therefore function as an anchor for these many interrelated interests.

I recognize that a balance must be achieved to preserve gas supply surety for Southcentral utilities and their ratepayers with maintenance of industry investment and pricing outcomes consistent with efficient marketplace competition. It is my sincere hope that under the U.S. Department of Energy's authority, the applicants will respond constructively to the concerns raised by the state and recognize benefits from continued business success in the Cook Inlet basin. Thank you for your consideration in this important matter.

Sincerely,

Sarah Palin

Sarah Palin
Governor

cc: The Honorable Samuel Bodman, US Secretary of Energy
ConocoPhillips
Marathon Oil Company

UNITED STATES OF AMERICA
DEPARTMENT OF ENERGY
OFFICE OF FOSSIL ENERGY

In the Matter of:	)	
	)	
CONOCOPHILLIPS ALASKA	)	
NATURAL GAS CORPORATION	)	FE Docket No. 07-02-LNG
and	)	
MARATHON OIL COMPANY	)	
	)	

STATE OF ALASKA'S MOTION TO INTERVENE AND REQUEST FOR ADDITIONAL PROCEDURES

Pursuant to 10 CFR 590.303, 590.310, 590.313 and the Department of Energy's notice published at 72 Fed. Reg. 10507 – 10509 (March 8, 2007), the State of Alaska ("State") requests leave to intervene as a party in the above referenced docket and requests an evidentiary trial be held to adjudicate issues raised in this Docket.

Pursuant to 10 CFR 590.303(d), service of all pleadings and notices should be directed to:

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In support of this Motion and Request for Additional Procedures, the State submits the following:

I. INTERESTS OF THE STATE IN THIS PROCEEDING

The State's interests in this proceeding are compelling and substantial. The State's interests include:

1. Protecting and promoting the general welfare of its citizens.[1]
2. Ensuring the safe, reliable and reasonably priced provisioning of utility services to citizens in the State who are captive consumers of monopoly public utility service providers.[2]
3. Ensuring "the development of its resources by making them available for maximum use consistent with the public interest."[3]
4. Promoting economic development within its borders, including making available economic opportunities to its citizens.[4]

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[1] *E.g. Bill Johnson's Restaurants, Inc. v. N.L.R.B.*, 461 U.S. 731, 742 (1983)(The states have a compelling interest "in protecting the health and well-being of [their] citizens.");

[2] *E.g. New Orleans Public Service, Inc. v. Council of the City of New Orleans*, 491 U.S. 350, 365 (1989)(State regulation of public utilities "is one of the most important functions traditionally associated with the police powers of the states."); *See also,* Alaska Stat. ("AS") 44.33.020(a)(24).

[3] Alaska Const., art. VIII, § 1; AS 44.37.020(a).

[4] *See* AS 44.33.020(a)(30) – (35).

5. Ensuring the State receives fair and reasonable revenues, in the form of royalty payments and taxes, from the exploitation of its resources.[5]

Each of these compelling State interests will be impacted by any decision made by the Department of Energy ("DOE") on this Application, which justifies the State's request to intervene as a party in this Docket. Although the State has significant pecuniary interest in its receipt of tax and royalty revenues which would result from the continuing export of LNG, and although the State has a significant public interest in ensuring continued employment opportunities and municipal government tax revenues from the continuation of LNG exports, the State has a more compelling and overriding interest in ensuring the safety and welfare of its citizens. The need to ensure the security of meeting regional public utility needs for natural gas is of paramount concern to the State.

A. THE STATE'S INTEREST IN ENSURING ADEQUATE COOK INLET NATURAL GAS SUPPLIES FOR PUBLIC UTILITIES IS PARAMOUNT.

Natural gas produced from the Cook Inlet is the sole source of gas used by regulated utilities to provide space heat and electrical generation to most Alaskans. Unlike any other area in the contiguous United States, Alaska is geographically isolated from any other pipeline infrastructure. Alaska cannot call on gas from any other state,

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[5] Alaska Const., art. VIII, §§ 11 – 12.

from Canada, or from imported LNG. There are no existing facilities that can backstop Cook Inlet's production. Thus, natural gas produced from proved reserves in the Cook Inlet is the only existing source of gas currently available to supply local public utilities for space heat and electrical generation to the bulk of Alaska's population. There is no other safety net.[6]

This is no idle claim. Public utilities that use natural gas produced from the Cook Inlet supply essential service to over 76% of the State's entire population base.[7] For example, Enstar Natural Gas Company ("Enstar") is a state regulated public utility providing natural gas to meet the space heating needs of over 340,000 Alaskans, which is over 50% of the State's population.[8]

In addition to providing for space heating needs, Cook Inlet natural gas is also the principle energy source used for generation by electrical utilities in Alaska. On a state wide basis, approximately 80% of electrical generation serving the bulk of

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6 No projections for permitting and construction of a natural gas pipeline from the North Slope of Alaska show any plausible scenario where gas could supply Southcentral Alaska until well beyond the expiration of this proposed export permit.

7 Alaska's population as of 2006 is approximately 670,000. State population data can be found at http://labor.state.ak.us/PAGEID=678SUBID=171.

8 *See* www.enstarnaturalgas.com/CompanyInfo/AboutUs.htm.

Alaska's population comes from generation powered by Cook Inlet natural gas.[9] Looking at Southcentral Alaska in particular, where the vast bulk of Alaska's population resides, the reliance of utilities on Cook Inlet gas as a power source for electric generation is even more pronounced.

Chugach Electric Association, Inc. ("Chugach") is the largest electric utility in the State. Chugach is engaged in the generation, transmission and distribution of electricity to directly serve retail customers in the Anchorage and upper Kenai Peninsula areas. Through an interconnected regional electrical system, Chugach's power flows throughout Alaska's "Railbelt", a 400-mile-long area stretching from the coastline of the southern Kenai Peninsula to the interior of the state, including Alaska's largest cities, Anchorage and Fairbanks. Chugach also supplies much of the power requirements of three wholesale customers, Matanuska Electric Association, Inc. ("MEA")[10], Homer Electric Association, Inc. ("HEA")[11] and the City of Seward ("Seward"). Collectively, these electric utilities serve approximately 185,000 Alaskan

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9 According to annual reports filed by public utilities with the Regulatory Commission of Alaska in 2005, approximately 10% is supplied by hydroelectric generation, 6% by fuel oil, and about 4 % by coal fired generation.

10 MEA serves communities in areas north of Anchorage, including Wasilla, Palmer and Eagle River.

11 HEA serves customers on the western Kenai Peninsula including Homer, Soldotna and Kenai.

families. Over 90% of this electric generation is powered by Cook Inlet gas currently under contract to Chugach.[12]

The State has a compelling interest in ensuring that these public utilities have adequate supplies of natural gas under contract to meet these local needs. Under State law, these public utility gas supply contracts must be approved by the Regulatory Commission of Alaska ("RCA").[13] State commission review is required in order to ensure captive ratepayers are not required to shoulder the costs of an unreasonably priced gas supply contract.[14]

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12 *See* http://www.chugachelectric.com/inside/facilities.html.

13 The RCA is a state regulatory agency charged by law to regulate the rates services, facilities, and contracts affecting the rates of public utilities and pipeline carriers in Alaska. It is required to ensure that all rates and services provided by monopoly utility and pipeline service providers are fair, just and reasonable. This review includes of necessity scrutiny of all contracts entered into by public utilities or pipeline carriers which affect consumer rates. *See* AS 42.05.141(a), AS 42.05.381(a), AS 42.05.431(a), AS 42.06.140(a), AS 42.06.370(a), AS 42.06.410(a). *See also, Re Enstar Natural Gas Company*, 8 APUC 319, 323 (1989)("All gas supply contracts or other arrangements must be filed with the Commission for its approval, and all such contracts and arrangements are void unless and until approved by the Commission."). [Copies of APUC Reporter decisions are available through Westlaw on the PUR database. The RCA is the successor regulatory agency to the Alaska Public Utility Commission ("APUC").]

14 State Commission review of such supply contracts is not unique to Alaska, and is necessary because most gas utilities are largely financially indifferent to their purchased gas costs. As is the case in Alaska, these purchased gas costs are typically passed directly through to ratepayers on a dollar – for – dollar basis. Thus, the RCA – like other state commissions - is required to closely scrutinize such contracts for reasonableness. *See* RCA Order U-06-02(15)(9/28/06) at page 22. [Copies of RCA orders are public records available online at http://www.state.ak.us/rca/orders/.] *See*

Both Enstar and Chugach have projected needs for natural gas both during the years of this proposed LNG export extension, and immediately after, that **are not** under contract. Enstar has substantial unmet natural gas requirements beginning in 2009.[15] Chugach has substantial unmet requirements for natural gas beginning in 2010.[16] Until such time that all natural gas supply needs of these utilities are under

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also, *United Gas Pipeline Co. v. Mobile Gas Svc. Corp.*, 350 U.S. 332, 344 (1956)(Holding under the Natural Gas Act, 15 U.S.C. § 717 *et seq.*, that the Federal Power Commission has authority to modify the rates in a contract between a utility and a gas supplier if the public interest required. This provides, according to the Court, a "reasonable accommodation between the conflicting interests of contract stability on one hand, and public regulation on the other."); *Stepanov v. Homer Electric Ass'n*, 814 P.2d 731, 736 (Alaska 1991)("[C]ontracts with public utilities are subject to reserve authority of the state, under the police power, to modify contracts in the interest of public welfare.")

15 Enstar has projected unmet requirements for natural gas totaling 21.8 Bcf for the years 2009 – 2011, that are not under contract at the present time. In the years immediately following 2011, Enstar's projected unmet gas needs are: (a) 2012- 10.6 Bcf; (b) 2013 – 11.1 Bcf; (c) 2014 – 11.7 Bcf; (d) 2015 – 12.2 Bcf; (e) 2016 – 12.7 Bcf; (f) 2017 – 13.2 Bcf; (g) 2018 – 15.3 Bcf; (h) 2019 – 19.2 Bcf; and (i) 2020 – 19.8 Bcf.

16 Chugach has projected unmet requirements for natural gas totaling 22.6 Bcf for the years 2010 – 2011, that are not under contract at the present time. In the years immediately following 2011, Chugach's projected unmet gas needs range between 13 and 24 Bcf/year from the years 2012 through 2020.

contract and approved by the RCA[17], the State has a compelling interest in intervening in this proceeding to protect the public welfare of its citizens.

B. THE STRUCTURE OF THE COOK INLET MARKET MUST CONTINUE TO ENCOURAGE DEVELOPMENT AND COMPETITION.

The State's interest in participating as a party in this proceeding is also grounded on its need to ensure the development of its resources achieves the highest possible benefit for its citizens. An ability to maximize these benefits requires an understanding of the Cook Inlet gas market, and how a continuation of LNG exports must also, in addition to meeting public utility needs, be conditioned upon continued exploration and development of Cook Inlet resources to ensure continuing development of Cook Inlet gas resources.

As outlined further below, conditions on continued LNG exports, in addition to first meeting public utility needs, should necessarily include a requirement for gas reserves replacement, and open access to LNG carriage for third party producers under terms the DOE deems reasonable. The State has a compelling interest in participating in this Docket to ensure these conditions are married to any decision to extend the export license.

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[17] The RCA's standard of review for such supply contracts requires a showing that utilities will be supplied with a "reliable supply of gas" at a "reasonable price." RCA Order U-06-02(15)(September 28, 2006) at page 22. The RCA also generally requires long term supply contracts. *See Re Enstar Natural Gas*, 9 APUC 552, 556 (1989)("The Commission has previously found a reserve life in excess of 15 years is in the public interest.")

II. THE STATE CURRENTLY OPPOSES THE APPLICATION

A. APPLICABLE LEGAL STANDARD

DOE has interpreted Section 3 of the National Gas Act, 15 U.S.C. § 717b, as "creat[ing] a statutory presumption in favor of an export application . . . unless it determines the presumption is overcome by evidence in the record of the proceeding that the proposed export will not be consistent with the public interest."[18] In evaluating this "public interest" standard, DOE looks to first to domestic need for the natural gas[19], as well as to any "other factors as may be appropriate" under the circumstances.[20] The Application before the DOE fails this test.

B. APPLICANTS DO NOT DEMONSTRATE LOCAL NEED FOR GAS CAN BE MET DURING THE PROPOSED LNG EXPORT TERM.

As noted above, the State's primary concern and responsibility is to ensure that the welfare of its citizens is protected. At present, the two principal utilities serving the majority of Alaskans for their space heating needs and for electricity have

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[18] DOE/FE Opinion and Order 1473, at p. 13.

[19] *Id.* at 14, citing Delegation Order No. 0204-111. Given the geographic isolation of Alaska and Cook Inlet from the lower 48 states, DOE has construed "domestic" need for natural gas focuses exclusively on the "regional" need for the gas. *Id.* at 15, n. 48.

[20] 49 Fed. Reg. 6684, 6688 (February 22, 1984); *Panhandle Producers and Royalty Owners Assoc. v. Economic Regulatory Administration*, 822 F.2d 1105, 1107 (D.C. Cir. 1987).

substantial unmet natural gas requirements both during the years of the proposed LNG export extension, and immediately thereafter.

The Applicants, Marathon Oil Company ("Marathon") and ConocoPhillips Alaska Natural Gas Corporation ("CPANGC") do not address these outstanding utility needs in their Application. Instead, they claim through their studies that "there are sufficient supplies of natural gas and other energy sources to meet both the regional demand of Southcentral Alaska and the foreign export market during the two-year period of the authorization requested."[21]

This showing is defective for two reasons. First, if existing Cook Inlet reserves are otherwise contractually committed they may not be available to meet outstanding local needs during the term of this Application. A showing of proved or probable reserves adequate to meet regional requirements is meaningful only if those holding leases to those reserves are willing and able to sell them to meet that local need. Thus, as explained above, both Enstar and Chugach have substantial outstanding needs for gas during the requested authorization period. If Cook Inlet lease holders have other contractual commitments for all existing reserves, the local needs of these utilities would be unmet during the export term. There is no analysis provided by the

[21] Application, page 9.

Applicants that shows whether there are adequate *uncommitted* reserves available to meet the needs of these two utilities during the proposed reauthorization term.

Second, even if adequate uncommitted reserves are shown to exist to meet the natural gas requirements of Chugach and Enstar, those producers holding the leases must be willing to sell gas to these utilities under terms the RCA will approve. The RCA has a statutory mandate to protect the interests of captive consumers by ensuring that rates demanded by utilities are just and reasonable. AS 42.05.141(a), AS 42.05.381(a). Under this mandate, gas supply contracts between utilities and suppliers are reviewed by the Commission for reasonableness. AS 42.05.431(a). This is necessary because the contractual cost of gas used by each utility is passed directly through to consumers under state regulations. *See* 3 AAC[22] 52.501 *et. seq.* Thus, unless the producers present contractual opportunities to these utilities for gas supplies to meet their outstanding requirements, and do so under terms the RCA will approve, there can be no conclusion local needs are met. Local needs are not met when proved reserves are not otherwise available.

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22 Alaska Administrative Code.

C. THE APPLICANTS ALSO FAIL TO ADDRESS THE DELIVERABILITY REQUIREMENTS OF LOCAL PUBLIC UTILITIES WHICH CURRENTLY REMAIN UNMET DURING THE PROPOSED EXPORT TERM.

The Application is also defective because it fails to address the unique deliverability needs of Enstar, coupled with the lack of adequate storage in the Cook Inlet.[23] Unlike many local distribution companies ("LDC") in the lower 48, Enstar has no storage facilities of its own. Instead, it relies on its existing supplier contracts, where it has priority of call on gas, to meet its substantial seasonal deliverability requirements.

Priority of gas supply during winter in Southcentral Alaska, where storage is limited, presents unique challenges to an LDC like Enstar. The geographic isolation of Alaska and the Cook Inlet from any other sources of gas to meet winter peak demand is unlike that faced by any other region in the country.[24] Enstar's winter peaking needs

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[23] "Currently, the Cook Inlet gas delivery system cannot supply the market when demand spikes in the coldest days of winter. . . . Gas for use in the Cook Inlet region along the pipeline distribution system is in short supply during the winter months of peak demand. When demand exceeds supply, gas delivery contracts specify that industrial use be curtailed, thus requiring plant operators to shut down facilities and output." Alaska Dept. of Natural Resources Report, *Kenai Sterling Pool 6 Storage Lease, ADL 390821, Final Finding of the Director* (4/7/06) at p. 16, a copy of which is available at: http://www.dog.dnr.state.ak.us/oil/products/publications/gas_storage/kenai/kenai_gas_storage_bif.pdf. Evident from this report, there is inadequate gas storage in Southcentral Alaska to meet winter peaking gas needs.

[24] *See* DOE/FE Opinion and Order 1473, at p. 15, n. 48.

must be met through existing Cook Inlet gas infrastructure. There is no other safety net available.

The impact of meeting this peak demand is largely ignored by the Applicants.[25] Also ignored is any recognition that Enstar's lack of adequate gas supply under contract during the term of this proposed export extension places it and the 340,000 Alaskans it serves in the precarious place of having no place to turn for gas when it is needed most because it does not have full gas supplies under contract during the proposed extension term. Thus, unless Enstar and Chugach have RCA-approved contracts in place expressly granting them priority rights to gas during winter peaking periods, there can be no conclusion reached that local needs are being met during the proposed export term.

D. THE APPLICATION IS DEFECTIVE BECAUSE IT DOES NOT ADDRESS RESERVES REPLACEMENT AND OPEN ACCESS TO LNG CARRIAGE.

In addition to ensuring that local public utility need for gas are met, which is addressed above, DOE guidelines require the consideration of "other factors" in addition to suggesting that any proposed export application act in a manner that will spur competition and development of the resource.[26] Without conditioning any decision to grant this export

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25 The Applicants briefly discuss this issue at page 21.

26 *See* 49 Fed. Reg. 6684, 66878 – 88 (February 22, 1984). While these guidelines expressly apply to gas imports, DOE has found these principles "applicable to exports as well." DOE/FE Order No. 1473, at page 14.

application on a demonstration that reserves replacement and open access issues are addressed DOE would be working at cross purposes with these goals.[27]

In order for DOE to address these issues, it is important to first recognize the structure of the Cook Inlet market. This gas market is not truly competitive. The three largest sellers control 95% of total gas sold.[28] Cook Inlet gas prices have doubled over the past three years. The Lerner Index[29] approximation of basin price and cost indicates a degree of exerted monopoly power is present at current price levels.

The Cook Inlet basin is an established oil province, but gas, discovered in a few large fields in connection with oil exploration, has only recently become a target of exploration. From the standpoint of gas, the basin is under explored and

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27 Although DOE's guidelines suggest "regulatory constraints and conditions" should be minimized, 49 Fed. Reg. at 6685, imposition of the requested conditions is necessary to meet "[t]he policy cornerstone of the public interest standard . . . competition." 49 Fed. Reg. at 6687.

28 These producers are Marathon, ConocoPhillips, and Chevron (Unocal).

29 The Lerner Index is a well-know index of monopoly power that is calculated by dividing the price-marginal cost difference by the price with the result falling between zero (pure competition) and one (pure monopoly). Marginal cost is estimated at $2.50 per Mcf based on finding and development cost data published in DOE's June 2006 Final Report *Alaska Natural Gas Needs and Final Assessment* (pp. 104-5) and cost and production data furnished by Wood MacKenzie's *North American (Frontier) Upstream Service for Alaska Cook Inlet* (2006). A Lerner Index value of 0.53 results from the price of $5.31 per Mcf, based on Alaska Department of Revenue, Cook Inlet Gas Prevailing Value (see footnote 34, below). *See also* Abba Lerner, "*The Concept of Monopoly and the Measurement of Monopoly Power*," Review of Economic Studies, (June 1934).

underdeveloped compared with other onshore gas supply regions in North America.[30] The current reserves-to-production ratio is approximately 8, based on current Alaska Department of Natural Resources ("ADNR") estimates.[31]

Gas storage investments are relatively new in the basin. There are about 9 Bcf of annual working gas storage at three facilities having about 100 mmcfd of peak deliverability installed since 2001.[32] Given the limited availability of Cook Inlet storage, added gas supplies have been necessary to meet peak winter demand through curtailment of industrial usage. During the winter of 2006-07, the LNG plant and Tesoro refinery both experienced periods of curtailment during cold weather to meet

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30 This history can be tracked in DOE's June 2004 Final Report, *South-Central Alaska Natural Gas Study*.

31 Alaska Division of Oil and Gas, *Alaska Oil and Gas Report*, at pages 3-3 and 3-27, (May 2006). A copy of this report can be found at: http://www.dog.dnr.state.ak.us/oil/products/publications/annual/2006_annual_report/Akoilgasdivisionrpt_2006.pdf.

32 *Natural Gas Storage in Alaska*. Presentation to the South Central Alaska Energy Forum, Brian E. Havelock, ADNR, DO&G, September 20, 2006. The 100 mmcfd is based on gross monthly delivered volume divided by production days. A peak delivery of 125 mmcfd for the Cook Inlet Basin is currently achievable, but can only be sustained for short durations. Storage location is a critical factor. Currently, there are only 0.7 Bcf working gas having 21 mmcfd peak deliverability on the west side of Cook Inlet. Lack of storage on the west side coupled with field delivery reductions at Beluga Field could result in line pressure drop and loss of service to utilities and residents north of Anchorage during very cold and windy days. *See*, http://www.dog.dnr.state.ak.us/oil/products/publications/gas_storage/gas_storage.htm.

domestic space heating demand spikes. The Agrium fertilizer plant has also experienced seasonal shutdowns for the same reason.

It is because of these circumstances that the State's request for the imposition of conditions on any export license extension should be granted. The conditions requested below, in addition to first meeting public utility requirements, are essential for continued investment and long-term sustainability of the Cook Inlet energy-producing sector.

1. DOE SHOULD REQUIRE CONTINUED APPLICANT INVESTMENT IN PROJECTS THAT TARGET REPLACEMENT GAS RESERVES.

As noted above, current ADNR estimates indicate that roughly eight years of proved reserves remain (R/P ratio = 8).[33] The Alaska Department of Revenue's published Prevailing Value for Cook Inlet gas measures the weighted average price of significant sales of gas to publicly-regulated utilities and indicates steady escalation in price over the past several years to a current level of $5.31 per Mcf.[34] This figure falls

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33 Alaska Division of Oil and Gas, *Alaska Oil and Gas Report*, at pages 3-3 and 3-27, (May 2006). A copy of this report can be found at: http://www.dog.dnr.state.ak.us/oil/products/publications/annual/2006_annual_report/Akoilgasdivisionrpt_2006.pdf.

34 Alaska Department of Revenue, "Cook Inlet Gas Prevailing Value," http://www.tax.state.ak.us/programs/oil/prices/prevailingvalue/cookinlet.asp.

well short of Enstar's current cost of gas ($7.03 per Mcf) in 2007.[35] These supply and price conditions suggest that the Cook Inlet basin has achieved approximate alignment with other North American, onshore gas supply basins. As such, the Cook Inlet basin represents an environment for investment as attractive as any other, provided opportunities to monetize such investments are available at the time new reserves are developed, as would be the case under open access, described below.

The current application for export renewal is for a two-year extension. The need to require replacement of reserves as a condition is built on the notion that the basin's existing stock of proved reserves should, at minimum, be kept whole as a condition of extended LNG export. By so doing (assuming no significant changes in market and/or supply conditions occur), the Applicants will have the incentive to return again to request additional future export license renewals. Maintenance of this balance in production and reserves replacement should act to keep the Cook Inlet industrial users in business for the long haul, as well as serve the long term requirements of public utilities and their consumers.[36] DOE should impose this condition on any decision to allow continued LNG exports.

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[35] A copy of Enstar's tariff setting forth this gas cost can be seen at http://www.enstarnaturalgas.com/CompanyInfo/rate_info.htm.

[36] *See* footnotes 15 & 16 above, describing the existing long term unmet natural gas requirements of both Enstar and Chugach, beginning in 2009.

2. DOE SHOULD REQUIRE OPEN ACCESS FOR THIRD-PARTY PRODUCERS UNDER TERMS DOE DEEMS REASONABLE.

The Cook Inlet market structure is highly concentrated with significant barriers to entry and exit. As such, it does not comport to any realistic degree with the notion of a perfectly competitive model. New entrants as well as existing producers face the troubling dilemma of how to monetize investment in a timely manner; i.e., where to place gas supplies if discovered and developed. This investment barrier stems from the relatively small number and scale of public utility contracts, their long-term nature, and the resulting potential for "lockout" from this public utility market.

LNG export via the Kenai plant carries with it the opportunity for increased investment and competition in supply by creating an alternative outlet for new supply. Thus, after first satisfying local public utility needs, requiring third-party access to LNG export facilities under terms DOE deems reasonable would allow the Cook Inlet market to work more effectively. Other than the Agrium fertilizer plant's potential availability as a market, opening third-party access to LNG export is the only current credible means of ensuring opportunities for new entrants to place gas which in turn should act to broaden the supply base and provide stability to the overall market. DOE should impose this condition on any decision to allow continued LNG exports.

III. ADDITIONAL PROCEDURES UNDER 10 CFR 590.313 SHOULD BE ORDERED.

The State requests a trial-type hearing be scheduled, including the adoption of discovery procedures consistent with 10 CFR 590.305 – 590.308, to be conducted sufficiently far in advance of any scheduled hearing so as to be consistent with due process. In the alternative, and only to the extent that this request for a trial-type hearing is denied, the State requests an opportunity to submit additional written reply comments in response to any answer filed by the Applicants.

In support of this request for additional procedures, the State identifies the following factual issues to be addressed, as well as the following issues of law and policy that should be addressed:

1. Would it be "consistent with the public interest" under 15 U.S.C. § 717b, to extend the export license when public utilities using Cook Inlet gas do not have sufficient gas under RCA-approved contracts adequate to meet local needs during the export term, and immediately thereafter?
2. Are there sufficient proved reserves of *uncommitted* Cook Inlet gas available for local use, including meeting the unmet contract requirements of Enstar and Chugach for Cook Inlet gas during the export term, and immediately thereafter?
3. In addressing local need for gas, should the DOE consider that local public utilities that depend on Cook Inlet gas to meet space heating and

electric generation needs of the bulk of Alaska's population also have substantial unmet natural gas requirements in the years immediately following the proposed export term?[37]

4. In addressing DOE's goal of promoting competition in the marketplace, should DOE impose requirements for gas reserves replacement, and open access for LNG carriage for third party producers under reasonable commercial terms on any decision to allow continued LNG export?

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[37] "It is possible a supply-to-demand ratio so dire as to threaten vital domestic uses might compel DOE to conclude an export of gas is not in the public interest." DOE/FE Opinion and Order No. 1473 at p. 45.

IV. CONCLUSION

For the reasons stated above, the State currently opposes the Application at issue in this docket. The State respectfully requests DOE issue an order allowing the State to intervene as a party in this Docket, and to schedule further proceedings as requested.

DATED this______day of April, 2007 at Anchorage, Alaska.

TALIS J. COLBERG
ATTORNEY GENERAL

By:____________________________
Steve DeVries
Assistant Attorney General
Alaska Bar No. 8611105

VERIFICATION

Steve DeVries, being first duly sworn, on oath states that he is an Assistant Attorney General for the State of Alaska and is authorized to make this verification; that he has prepared the forgoing document and that all allegations of fact stated therein are true and correct to the best of his knowledge, information and belief.

____
Steve DeVries

SUBSCRIBED AND SWORN to before me this __th day of April, 2007.

____
Notary Public in and for Alaska
My commission expires: ____________

CERTIFICATE OF REPRESENTATIVE

Pursuant to 10 CFR 590.103(b), I hereby certify that I am a duly authorized representative of the STATE OF ALASKA and that I am authorized to sign and file with the Department of Energy, Office of Fossil Energy, the foregoing document.

DATED this______day of April, 2007 at Anchorage, Alaska.

TALIS J. COLBERG
ATTORNEY GENERAL

By:____________________________
Steve DeVries
Assistant Attorney General
Alaska Bar No. 8611105

CERTIFICATE OF SERVICE

I hereby certify that on this______day of April, 2007, a true and correct copy of the STATE OF ALASKA'S MOTION TO INTERVENE AND REQUEST FOR ADDITIONAL PROCEDURES, COVER LETTER FROM GOVERNOR SARAH PALIN, and this CERTIFICATE OF SERVICE were served by regular mail and by email, on the following:

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DATED this______day of April, 2007 at Anchorage, Alaska.

TALIS J. COLBERG
ATTORNEY GENERAL

By:______________________________
Steve DeVries
Assistant Attorney General
Alaska Bar No. 8611105