

ALASKA LEGISLATURE COMMITTEE FILES 2007-2008 RES 12719

1 **WHEREAS** natural gas produced from Cook Inlet is the sole source of natural gas
2 used by the two largest regulated utilities in the state to provide space heating and electrical
3 generation for the majority of the people in the state; and

4 **WHEREAS** the utilities that use natural gas produced from Cook Inlet currently are
5 not able to acquire natural gas from another state, Canada, or a foreign source of liquefied
6 natural gas; and

7 **WHEREAS** ConocoPhillips and Marathon Oil Corporation have jointly filed for a
8 two-year extension of the Kenai Liquefied Natural Gas Plant's export license with the United
9 States Department of Energy; and

10 **WHEREAS** the Kenai Liquefied Natural Gas Plant currently exports about 1,300,000
11 metric tons of liquefied natural gas annually to buyers in Tokyo, representing approximately
12 36 percent of the natural gas produced in the Cook Inlet region; and

13 **WHEREAS** the Kenai Liquefied Natural Gas Plant plays an important role in the
14 local and state economy, employs approximately 58 residents, and generates revenue for the
15 state and the Kenai Peninsula Borough; and

16 **WHEREAS** the supply of natural gas in Cook Inlet relative to the demand has
17 declined significantly in recent years, and production is forecasted to decline precipitously
18 over the next decade; and

19 **WHEREAS** the decline in supply relative to demand has resulted in skyrocketing
20 prices for local consumers, increasing home heating costs by 97 percent in the last five years
21 and causing hardship for many low-income and middle-income families; and

22 **WHEREAS**, although the renewal of the license to export liquefied natural gas offers
23 many benefits to the state, the state must have as a priority the availability of affordable
24 natural gas to meet the needs of its people;

25 **BE IT RESOLVED** that the Alaska State Legislature respectfully requests the United
26 States Department of Energy, when reviewing the request for the extension of the Kenai
27 Liquefied Natural Gas Plant's export license, to consider whether the needs of the people of
28 the state for natural gas for home heating and electrical generation during the period of the
29 possible extension will be fully satisfied through binding contracts between regulated utilities
30 and those persons who produce natural gas in Cook Inlet; and be it

31 **FURTHER RESOLVED** that the Alaska State Legislature respectfully requests the

1 United States Department of Energy to consider the status of the natural gas reserves in Cook
2 Inlet, the speed at which the reserves are being depleted, and the level of exploration to
3 discover new reserves in Cook Inlet; and be it

4 **FURTHER RESOLVED** that the Alaska State Legislature urges natural gas
5 producers in the Cook Inlet region to work expeditiously with local utilities to ensure an
6 adequate and affordable long-term supply of natural gas for Alaskans; and be it

7 **FURTHER RESOLVED** that the Alaska State Legislature urges the Regulatory
8 Commission of Alaska to expedite review of any utility contract that will provide long-term
9 and affordable supplies of natural gas for the people of the state.

10 **COPIES** of this resolution shall be sent to the Honorable Samuel W. Bodman, United
11 States Secretary of Energy; the Honorable Talis J. Colberg, Alaska Attorney General; the
12 Honorable Tom Irwin, Commissioner, Department of Natural Resources; the Honorable Emil
13 Notti, Commissioner of the Department of Commerce, Community, and Economic
14 Development; the Honorable Kate Giard, Chair of the Regulatory Commission of Alaska; Jim
15 Bowles, President, ConocoPhillips Alaska, Inc.; John Barnes, Alaska Asset Team Manager,
16 Marathon Oil Company; John Zager, General Manager, Chevron.

SENATE JOINT RESOLUTION NO. 4

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIFTH LEGISLATURE - FIRST SESSION

BY SENATORS WIELECHOWSKI, Ellis, Davi.

Introduced: 3/12/07

Referred: Labor and Commerce, Resources

A RESOLUTION

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

4 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5 **WHEREAS** approximately 340,000 people in the state rely on natural gas from Cook
6 Inlet to heat their homes; and

7 **WHEREAS** approximately 473,000 people in the state rely on natural gas from Cook
8 Inlet to generate electricity for their homes and businesses; and

9 **WHEREAS** these people live in communities from Fairbanks to the Kenai Peninsula,
10 including Anchorage and the Matanuska-Susitna Borough; and

11 **WHEREAS** ConocoPhillips and Marathon Oil Corporation have jointly filed for a
12 two-year extension of the Kenai Liquefied Natural Gas facility's export license with the
13 United States Department of Energy; and

14 **WHEREAS** the Kenai Liquefied Natural Gas Plant currently exports about 1,300,000
15 metric tons of liquefied natural gas annually to buyers in Tokyo, representing approximately

1 36 percent of the natural gas produced in the Cook Inlet region; and

2 **WHEREAS** the Kenai Liquefied Natural Gas Plant plays an important role in the
3 local and state economy, employs approximately 58 residents, and generates revenue for the
4 state and the Kenai Peninsula Borough; and

5 **WHEREAS** the supply of natural gas in Cook Inlet relative to the demand has
6 declined significantly in recent years, and production is forecasted to decline precipitously
7 over the next decade; and

8 **WHEREAS** the decline in supply relative to demand has resulted in skyrocketing
9 prices for local consumers, increasing home heating costs by 97 percent in the last five years
10 and causing hardship for many low-income and middle-income families; and

11 **WHEREAS**, although the renewal of the export license for the export of liquefied
12 natural gas offers many benefits to the state, the state's first priority must be to ensure the
13 availability of affordable natural gas to meet the needs of the people of the state;

14 **BE IT RESOLVED** that the Alaska State Legislature respectfully requests the
15 attorney general to evaluate whether the extension of the Kenai Liquefied Natural Gas Plant's
16 export license is in the best interest of local consumers and the state and whether termination
17 of the license would result in lower prices for businesses and residents of the state; and be it

18 **FURTHER RESOLVED** that the Alaska State Legislature urges natural gas
19 producers in the Cook Inlet region to work with local utilities to ensure an adequate and
20 affordable long-term supply of natural gas for Alaskans; and be it

21 **FURTHER RESOLVED** that the Alaska State Legislature urges the Regulatory
22 Commission of Alaska to expedite review of any utility contract that will provide long-term
23 and affordable supplies of natural gas for the people of the state.

24 **COPIES** of this resolution shall be sent to the Honorable Samuel W. Bodman, United
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27 Notti, Commissioner of the Department of Commerce, Community, and Economic
28 Development; the Honorable Kate Giard, Chair of the Regulatory Commission of Alaska; Jim
29 Bowles, President, ConocoPhillips Alaska, Inc.; John Barnes, Alaska Asset Team Manager,
30 Marathon Oil Company; John Zager, General Manager, Chevron.

**CS FOR SENATE JOINT RESOLUTION NO. 4(L&C)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIFTH LEGISLATURE - FIRST SESSION**

BY THE SENATE LABOR AND COMMERCE COMMITTEE

Offered: 3/23/07

Referred: Resources

Sponsor(s): SENATORS WIELECHOWSKI, Ellis, Davis

A RESOLUTION

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10 including Anchorage and the Matanuska-Susitna Borough; and

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12 two-year extension of the Kenai Liquefied Natural Gas facility's export license with the
13 United States Department of Energy; and

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15 metric tons of liquefied natural gas annually to buyers in Tokyo, representing approximately

1 36 percent of the natural gas produced in the Cook Inlet region; and

2 **WHEREAS** the Kenai Liquefied Natural Gas Plant plays an important role in the
3 local and state economy, employs approximately 58 residents, and generates revenue for the
4 state and the Kenai Peninsula Borough; and

5 **WHEREAS** the supply of natural gas in Cook Inlet relative to the demand has
6 declined significantly in recent years, and production is forecasted to decline precipitously
7 over the next decade; and

8 **WHEREAS** the decline in supply relative to demand has resulted in skyrocketing
9 prices for local consumers, increasing home heating costs by 97 percent in the last five years
10 and causing hardship for many low-income and middle-income families; and

11 **WHEREAS**, although the renewal of the license to export liquefied natural gas offers
12 many benefits to the state, the state must have as a priority the availability of affordable
13 natural gas to meet the needs of its people;

14 **BE IT RESOLVED** that the Alaska State Legislature respectfully requests the
15 attorney general, in coordination with the Department of Natural Resources, to evaluate
16 whether the extension of the Kenai Liquefied Natural Gas Plant's export license is in the best
17 interest of local consumers and the state and whether nonrenewal of the license would result
18 in lower prices for businesses and residents of the state; and be it

19 **FURTHER RESOLVED** that the Alaska State Legislature urges natural gas
20 producers in the Cook Inlet region to work with local utilities to ensure an adequate and
21 affordable long-term supply of natural gas for Alaskans; and be it

22 **FURTHER RESOLVED** that the Alaska State Legislature urges the Regulatory
23 Commission of Alaska to expedite review of any utility contract that will provide long-term
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27 Honorable Tom Irwin, Commissioner, Department of Natural Resources; the Honorable Emil
28 Notti, Commissioner of the Department of Commerce, Community, and Economic
29 Development; the Honorable Kate Giard, Chair of the Regulatory Commission of Alaska; Jim
30 Bowles, President, ConocoPhillips Alaska, Inc.; John Barnes, Alaska Asset Team Manager,
31 Marathon Oil Company; John Zager, General Manager, Chevron.

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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.

U.S. Department of Energy

April 6, 2007

Page 3

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,

A handwritten signature in cursive script, appearing to read "Sarah Palin".

Sarah Palin
Governor

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

1
2 **UNITED STATES OF AMERICA**
3 **DEPARTMENT OF ENERGY**
4 **OFFICE OF FOSSIL ENERGY**

4 In the Matter of:)
5)
6 CONOCOPHILLIPS ALASKA)
7 NATURAL GAS CORPORATION) FE Docket No. 07-02-LNG
8 and)
9 MARATHON OIL COMPANY)

10
11 **STATE OF ALASKA'S MOTION TO INTERVENE AND REQUEST FOR**
12 **ADDITIONAL PROCEDURES**

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

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

19 Steve DeVries
20 Daniel Patrick O'Tierney
21 Assistant Attorneys General
22 1031 W. 4th Ave., Ste. 200
23 Anchorage, AK 99501
24 Phone: (907) 269-5100
25 Fax: (907) 276-3697 or (907) 278-4683
26 Email: Steve_DeVries@law.state.ak.us
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DEPARTMENT OF LAW
OFFICE OF THE ATTORNEY GENERAL
ANCHORAGE BRANCH
1031 W. FOURTH AVENUE, SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 269-5100

1
2 In support of this Motion and Request for Additional Procedures, the State
3 submits the following:

4
5 **I. INTERESTS OF THE STATE IN THIS PROCEEDING**

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

7 The State's interests include:

- 8 1. Protecting and promoting the general welfare of its citizens.¹
9
10 2. Ensuring the safe, reliable and reasonably priced provisioning of utility
11 services to citizens in the State who are captive consumers of monopoly
12 public utility service providers.²
13 3. Ensuring "the development of its resources by making them available for
14 maximum use consistent with the public interest."³
15 4. Promoting economic development within its borders, including making
16 available economic opportunities to its citizens.⁴
17

18 ¹ *E.g. Bill Johnson's Restaurants, Inc. v. N.L.R.B.*, 461 U.S. 731, 742
19 (1983)(The states have a compelling interest "in protecting the health and well-being of
20 [their] citizens.");

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

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

26 ⁴ *See* AS 44.33.020(a)(30) – (35).

1
2 5. Ensuring the State receives fair and reasonable revenues, in the form of
3 royalty payments and taxes, from the exploitation of its resources.⁵

4 Each of these compelling State interests will be impacted by any decision
5 made by the Department of Energy ("DOE") on this Application, which justifies the
6 State's request to intervene as a party in this Docket. Although the State has significant
7 pecuniary interest in its receipt of tax and royalty revenues which would result from the
8 continuing export of LNG, and although the State has a significant public interest in
9 ensuring continued employment opportunities and municipal government tax revenues
10 from the continuation of LNG exports, the State has a more compelling and overriding
11 interest in ensuring the safety and welfare of its citizens. The need to ensure the
12 security of meeting regional public utility needs for natural gas is of paramount concern
13 to the State.
14

15
16 **A. THE STATE'S INTEREST IN ENSURING ADEQUATE COOK
17 INLET NATURAL GAS SUPPLIES FOR PUBLIC UTILITIES IS
18 PARAMOUNT.**

19 Natural gas produced from the Cook Inlet is the sole source of gas used by
20 regulated utilities to provide space heat and electrical generation to most Alaskans.
21 Unlike any other area in the contiguous United States, Alaska is geographically isolated
22 from any other pipeline infrastructure. Alaska cannot call on gas from any other state,
23

24 ⁵ Alaska Const., art. VIII, §§ 11 - 12.

1
2 from Canada, or from imported LNG. There are no existing facilities that can backstop
3 Cook Inlet's production. Thus, natural gas produced from proved reserves in the Cook
4 Inlet is the only existing source of gas currently available to supply local public utilities
5 for space heat and electrical generation to the bulk of Alaska's population. There is no
6 other safety net.⁶

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

13
14 In addition to providing for space heating needs, Cook Inlet natural gas is
15 also the principle energy source used for generation by electrical utilities in Alaska. On
16 a state wide basis, approximately 80% of electrical generation serving the bulk of

17
18
19
20 ⁶ No projections for permitting and construction of a natural gas pipeline
21 from the North Slope of Alaska show any plausible scenario where gas could supply
22 Southcentral Alaska until well beyond the expiration of this proposed export permit.

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

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

1
2 Alaska's population comes from generation powered by Cook Inlet natural gas.⁹
3 Looking at Southcentral Alaska in particular, where the vast bulk of Alaska's
4 population resides, the reliance of utilities on Cook Inlet gas as a power source for
5 electric generation is even more pronounced.

6
7 Chugach Electric Association, Inc. ("Chugach") is the largest electric
8 utility in the State. Chugach is engaged in the generation, transmission and distribution
9 of electricity to directly serve retail customers in the Anchorage and upper Kenai
10 Peninsula areas. Through an interconnected regional electrical system, Chugach's
11 power flows throughout Alaska's "Railbelt", a 400-mile-long area stretching from the
12 coastline of the southern Kenai Peninsula to the interior of the state, including Alaska's
13 largest cities, Anchorage and Fairbanks. Chugach also supplies much of the power
14 requirements of three wholesale customers, Matanuska Electric Association, Inc.
15 ("MEA")¹⁰, Homer Electric Association, Inc. ("HEA")¹¹ and the City of Seward
16 ("Seward"). Collectively, these electric utilities serve approximately 185,000 Alaskan
17

18
19 _____
20 ⁹ According to annual reports filed by public utilities with the Regulatory
21 Commission of Alaska in 2005, approximately 10% is supplied by hydroelectric
22 generation, 6% by fuel oil, and about 4 % by coal fired generation.

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

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

1
2 families. Over 90% of this electric generation is powered by Cook Inlet gas currently
3 under contract to Chugach.¹²

4 The State has a compelling interest in ensuring that these public utilities
5 have adequate supplies of natural gas under contract to meet these local needs. Under
6 State law, these public utility gas supply contracts must be approved by the Regulatory
7 Commission of Alaska ("RCA").¹³ State commission review is required in order to
8 ensure captive ratepayers are not required to shoulder the costs of an unreasonably
9 priced gas supply contract.¹⁴
10

11
12 ¹² See <http://www.chugachelectric.com/inside/facilities.html>.

13 ¹³ The RCA is a state regulatory agency charged by law to regulate the rates,
14 services, facilities, and contracts affecting the rates of public utilities and pipeline
15 carriers in Alaska. It is required to ensure that all rates and services provided by
16 monopoly utility and pipeline service providers are fair, just and reasonable. This
17 review includes of necessity scrutiny of all contracts entered into by public utilities or
18 pipeline carriers which affect consumer rates. See AS 42.05.141(a), AS 42.05.381(a),
19 AS 42.05.431(a), AS 42.06.140(a), AS 42.06.370(a), AS 42.06.410(a). See also, *Re*
20 *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").]

21 ¹⁴ State Commission review of such supply contracts is not unique to
22 Alaska, and is necessary because most gas utilities are largely financially indifferent to
23 their purchased gas costs. As is the case in Alaska, these purchased gas costs are
24 typically passed directly through to ratepayers on a dollar – for – dollar basis. Thus, the
25 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

1
2 Both Enstar and Chugach have projected needs for natural gas both during
3 the years of this proposed LNG export extension, and immediately after, that are not
4 under contract. Enstar has substantial unmet natural gas requirements beginning in
5 2009.¹⁵ Chugach has substantial unmet requirements for natural gas beginning in
6 2010.¹⁶ Until such time that all natural gas supply needs of these utilities are under
7
8
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11
12

13 also, *United Gas Pipeline Co. v. Mobile Gas Svc. Corp.*, 350 U.S. 332, 344
14 (1956)(Holding under the Natural Gas Act, 15 U.S.C. § 717 *et seq.*, that the Federal
15 Power Commission has authority to modify the rates in a contract between a utility and
16 a gas supplier if the public interest required. This provides, according to the Court, a
17 “reasonable accommodation between the conflicting interests of contract stability on
18 one hand, and public regulation on the other.”); *Stepanov v. Homer Electric Ass’n*, 814
19 P.2d 731, 736 (Alaska 1991)(“[C]ontracts with public utilities are subject to reserve
20 authority of the state, under the police power, to modify contracts in the interest of
21 public welfare ”)

22 ¹⁵ Enstar has projected unmet requirements for natural gas totaling 21.8 Bcf
23 for the years 2009 – 2011, that are not under contract at the present time. In the years
24 immediately following 2011, Enstar’s projected unmet gas needs are: (a) 2012- 10.6
25 Bcf; (b) 2013 – 11.1 Bcf; (c) 2014 – 11.7 Bcf; (d) 2015 – 12.2 Bcf; (e) 2016 – 12.7 Bcf;
26 (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.

1
2 contract and approved by the RCA¹⁷, the State has a compelling interest in intervening
3 in this proceeding to protect the public welfare of its citizens.

4 **B. THE STRUCTURE OF THE COOK INLET MARKET MUST**
5 **CONTINUE TO ENCOURAGE DEVELOPMENT AND**
6 **COMPETITION.**

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

14 As outlined further below, conditions on continued LNG exports, in
15 addition to first meeting public utility needs, should necessarily include a requirement
16 for gas reserves replacement, and open access to LNG carriage for third party producers
17 under terms the DOE deems reasonable. The State has a compelling interest in
18 participating in this Docket to ensure these conditions are married to any decision to
19 extend the export license.
20

21
22 ¹⁷ The RCA's standard of review for such supply contracts requires a
23 showing that utilities will be supplied with a "reliable supply of gas" at a "reasonable
24 price." RCA Order U-06-02(15)(September 28, 2006) at page 22. The RCA also
25 generally requires long term supply contracts. *See Re Enstar Natural Gas*, 9 APUC
26 552, 556 (1989)("The Commission has previously found a reserve life in excess of 15
years is in the public interest.")

1
2 **II. THE STATE CURRENTLY OPPOSES THE APPLICATION**

3
4 **A. APPLICABLE LEGAL STANDARD**

5 DOE has interpreted Section 3 of the National Gas Act, 15 U.S.C. § 717b,
6 as "creat[ing] a statutory presumption in favor of an export application . . . unless it
7 determines the presumption is overcome by evidence in the record of the proceeding
8 that the proposed export will not be consistent with the public interest."¹⁸ In evaluating
9 this "public interest" standard, DOE looks to first to domestic need for the natural gas¹⁹,
10 as well as to any "other factors as may be appropriate" under the circumstances.²⁰ The
11 Application before the DOE fails this test.
12

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

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

19
20 ¹⁸ DOE/FE Opinion and Order 1473, at p. 13.

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

25 ²⁰ 49 Fed. Reg. 6684, 6688 (February 22, 1984); *Panhandle Producers and
26 Royalty Owners Assoc. v. Economic Regulatory Administration*, 822 F.2d 1105, 1107
(D.C. Cir. 1987).

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

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

11 This showing is defective for two reasons. First, if existing Cook Inlet
12 reserves are otherwise contractually committed they may not be available to meet
13 outstanding local needs during the term of this Application. A showing of proved or
14 probable reserves adequate to meet regional requirements is meaningful only if those
15 holding leases to those reserves are willing and able to sell them to meet that local need.
16 Thus, as explained above, both Enstar and Chugach have substantial outstanding needs
17 for gas during the requested authorization period. If Cook Inlet lease holders have other
18 contractual commitments for all existing reserves, the local needs of these utilities
19 would be unmet during the export term. There is no analysis provided by the
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23 ²¹ Application, page 9.

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

4 Second, even if adequate uncommitted reserves are shown to exist to meet
5 the natural gas requirements of Chugach and Enstar, those producers holding the leases
6 must be willing to sell gas to these utilities under terms the RCA will approve. The
7 RCA has a statutory mandate to protect the interests of captive consumers by ensuring
8 that rates demanded by utilities are just and reasonable. AS 42.05.141(a),
9 AS 42.05.381(a). Under this mandate, gas supply contracts between utilities and
10 suppliers are reviewed by the Commission for reasonableness. AS 42.05.431(a). This
11 is necessary because the contractual cost of gas used by each utility is passed directly
12 through to consumers under state regulations. See 3 AAC²² 52.501 *et. seq.* Thus, unless
13 the producers present contractual opportunities to these utilities for gas supplies to meet
14 their outstanding requirements, and do so under terms the RCA will approve, there can
15 be no conclusion local needs are met. Local needs are not met when proved reserves
16 are not otherwise available.
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Alaska Administrative Code.

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

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

12 Priority of gas supply during winter in Southcentral Alaska, where storage
13 is limited, presents unique challenges to an LDC like Enstar. The geographic isolation
14 of Alaska and the Cook Inlet from any other sources of gas to meet winter peak demand
15 is unlike that faced by any other region in the country.²⁴ Enstar's winter peaking needs
16

17 ²³ "Currently, the Cook Inlet gas delivery system cannot supply the market
18 when demand spikes in the coldest days of winter. . . . Gas for use in the Cook Inlet
19 region along the pipeline distribution system is in short supply during the winter months
20 of peak demand. When demand exceeds supply, gas delivery contracts specify that
21 industrial use be curtailed, thus requiring plant operators to shut down facilities and
22 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
23 available at:

24 [http://www.dog.dnr.state.ak.us/oil/products/publications/gas_storage/kenai/kenai_gas_st](http://www.dog.dnr.state.ak.us/oil/products/publications/gas_storage/kenai/kenai_gas_storage_bif.pdf)
25 [orage_bif.pdf](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
26 Alaska to meet winter peaking gas needs.

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

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

4 The impact of meeting this peak demand is largely ignored by the
5 Applicants.²⁵ Also ignored is any recognition that Enstar's lack of adequate gas supply
6 under contract during the term of this proposed export extension places it and the
7 340,000 Alaskans it serves in the precarious place of having no place to turn for gas
8 when it is needed most because it does not have full gas supplies under contract during
9 the proposed extension term. Thus, unless Enstar and Chugach have RCA-approved
10 contracts in place expressly granting them priority rights to gas during winter peaking
11 periods, there can be no conclusion reached that local needs are being met during the
12 proposed export term.
13

14
15 **D. THE APPLICATION IS DEFECTIVE BECAUSE IT DOES NOT**
16 **ADDRESS RESERVES REPLACEMENT AND OPEN ACCESS TO LNG**
17 **CARRIAGE.**

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

22 ²⁵ The Applicants briefly discuss this issue at page 21.

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

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

4 In order for DOE to address these issues, it is important to first recognize
5 the structure of the Cook Inlet market. This gas market is not truly competitive. The
6 three largest sellers control 95% of total gas sold.²⁸ Cook Inlet gas prices have doubled
7 over the past three years. The Lerner Index²⁹ approximation of basin price and cost
8 indicates a degree of exerted monopoly power is present at current price levels.
9

10 The Cook Inlet basin is an established oil province, but gas, discovered in
11 a few large fields in connection with oil exploration, has only recently become a target
12 of exploration. From the standpoint of gas, the basin is under explored and
13

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

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

20 ²⁹ The Lerner Index is a well-know index of monopoly power that is
21 calculated by dividing the price-in-marginal cost difference by the price with the result
22 falling between zero (pure competition) and one (pure monopoly). Marginal cost is
23 estimated at \$2.50 per Mcf based on finding and development cost data published in
24 DOE's June 2006 Final Report *Alaska Natural Gas Needs and Final Assessment* (pp.
25 104-5) and cost and production data furnished by Wood MacKenzie's *North American*
26 *(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).

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2 underdeveloped compared with other onshore gas supply regions in North America.³⁰

3 The current reserves-to-production ratio is approximately 8, based on current Alaska
4 Department of Natural Resources ("ADNR") estimates.³¹

5 Gas storage investments are relatively new in the basin. There are about
6 9 Bcf of annual working gas storage at three facilities having about 100 mmcf of peak
7 deliverability installed since 2001.³² Given the limited availability of Cook Inlet
8 storage, added gas supplies have been necessary to meet peak winter demand through
9 curtailment of industrial usage. During the winter of 2006-07, the LNG plant and
10 Tesoro refinery both experienced periods of curtailment during cold weather to meet
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14 ³⁰ This history can be tracked in DOE's June 2004 Final Report, *South-Central Alaska Natural Gas Study*.

15 ³¹ Alaska Division of Oil and Gas, *Alaska Oil and Gas Report*, at pages 3-3
16 and 3-27, (May 2006). A copy of this report can be found at:
17 http://www.dog.dnr.state.ak.us/oil/products/publications/annual/2006_annual_report/Ak_oilgasdivisionrpt_2006.pdf.

18 ³² *Natural Gas Storage in Alaska*. Presentation to the South Central Alaska
19 Energy Forum, Brian E. Havelock, ADNR, DO&G, September 20, 2006. The 100
20 mmcf is based on gross monthly delivered volume divided by production days. A
21 peak delivery of 125 mmcf for the Cook Inlet Basin is currently achievable, but can
22 only be sustained for short durations. Storage location is a critical factor. Currently,
23 there are only 0.7 Bcf working gas having 21 mmcf peak deliverability on the west
24 side of Cook Inlet. Lack of storage on the west side coupled with field delivery
25 reductions at Beluga Field could result in line pressure drop and loss of service to
26 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.

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

4 It is because of these circumstances that the State's request for the
5 imposition of conditions on any export license extension should be granted. The
6 conditions requested below, in addition to first meeting public utility requirements, are
7 essential for continued investment and long-term sustainability of the Cook Inlet
8 energy-producing sector.
9

10 **1. DOE SHOULD REQUIRE CONTINUED APPLICANT**
11 **INVESTMENT IN PROJECTS THAT TARGET REPLACEMENT**
12 **GAS RESERVES.**

13 As noted above, current ADNR estimates indicate that roughly eight years
14 of proved reserves remain (R/P ratio = 8).³³ The Alaska Department of Revenue's
15 published Prevailing Value for Cook Inlet gas measures the weighted average price of
16 significant sales of gas to publicly-regulated utilities and indicates steady escalation in
17 price over the past several years to a current level of \$5.31 per Mcf.³⁴ This figure falls
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21 ³³ Alaska Division of Oil and Gas, *Alaska Oil and Gas Report*, at pages 3-3
22 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/Ak_oilgasdivisionrpt_2006.pdf.

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

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2 well short of Enstar's current cost of gas (\$7.03 per Mcf) in 2007.³⁵ These supply and
3 price conditions suggest that the Cook Inlet basin has achieved approximate alignment
4 with other North American, onshore gas supply basins. As such, the Cook Inlet basin
5 represents an environment for investment as attractive as any other, provided
6 opportunities to monetize such investments are available at the time new reserves are
7 developed, as would be the case under open access, described below.
8

9 The current application for export renewal is for a two-year extension.
10 The need to require replacement of reserves as a condition is built on the notion that the
11 basin's existing stock of proved reserves should, at minimum, be kept whole as a
12 condition of extended LNG export. By so doing (assuming no significant changes in
13 market and/or supply conditions occur), the Applicants will have the incentive to return
14 again to request additional future export license renewals. Maintenance of this balance
15 in production and reserves replacement should act to keep the Cook Inlet industrial
16 users in business for the long haul, as well as serve the long term requirements of public
17 utilities and their consumers.³⁶ DOE should impose this condition on any decision to
18 allow continued LNG exports.
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22 ³⁵ A copy of Enstar's tariff setting forth this gas cost can be seen at
23 http://www.enstarnaturalgas.com/CompanyInfo/rate_info.htm.

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

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

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

12 LNG export via the Kenai plant carries with it the opportunity for
13 increased investment and competition in supply by creating an alternative outlet for new
14 supply. Thus, after first satisfying local public utility needs, requiring third-party access
15 to LNG export facilities under terms DOE deems reasonable would allow the Cook Inlet
16 market to work more effectively. Other than the Agrium fertilizer plant's potential
17 availability as a market, opening third-party access to LNG export is the only current
18 credible means of ensuring opportunities for new entrants to place gas which in turn
19 should act to broaden the supply base and provide stability to the overall market. DOE
20 should impose this condition on any decision to allow continued LNG exports.
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2 **III. ADDITIONAL PROCEDURES UNDER 10 CFR 590.313 SHOULD BE**
3 **ORDERED.**

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

10 In support of this request for additional procedures, the State identifies the
11 following factual issues to be addressed, as well as the following issues of law and
12 policy that should be addressed:
13

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

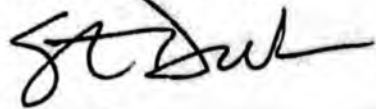
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IV. CONCLUSION

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 6th day of April, 2007 at Anchorage, Alaska.

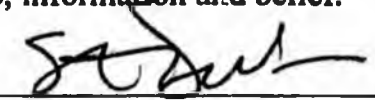
TALIS J. COLBERG
ATTORNEY GENERAL

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

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1
2 **VERIFICATION**

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

7 
8 _____
9 Steve DeVries

10 SUBSCRIBED AND SWORN to before me this 6th day of April, 2007.



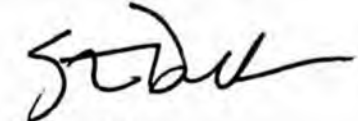
14 
15 _____
16 Notary Public in and for Alaska
17 My commission expires: ending with office

18 **CERTIFICATE OF REPRESENTATIVE**

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

23 DATED this 6th day of April, 2007 at Anchorage, Alaska.

24 TALIS J. COLBERG
25 ATTORNEY GENERAL

26 By: 

Steve DeVries
Assistant Attorney General
Alaska Bar No. 8611105

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1
2
3 **CERTIFICATE OF SERVICE**

4 I hereby certify that on this 6th day of April, 2007, a true and correct
5 copy of the STATE OF ALASKA'S MOTION TO INTERVENE AND REQUEST
6 FOR ADDITIONAL PROCEDURES, MOTION TO ALLOW ORIGINAL
7 DOCUMENTS TO BE FILED BEYOND NOTICE PERIOD and this CERTIFICATE
8 OF SERVICE were served by regular mail and by email, on the following:
9

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36 State of Alaska's Motion to Intervene
and Request for Additional Procedures
FE Docket No. 07-02-LNG
April 6, 2007
Page 24 of 25

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20 Email: Eric.Redman@hellerehrman.com

21 DATED this 6th day of April, 2007 at Anchorage, Alaska.

22 TALIS J. COLBERG
23 ATTORNEY GENERAL

24 By: 

25 Steve DeVries
26 Assistant Attorney General
Alaska Bar No. 8611105

1
2 **UNITED STATES OF AMERICA**
3 **DEPARTMENT OF ENERGY**
4 **OFFICE OF FOSSIL ENERGY**

4 In the Matter of:)
5)
6 CONOCOPHILLIPS ALASKA)
7 NATURAL GAS CORPORATION) FE Docket No. 07-02-LNG
8 and)
9 MARATHON OIL COMPANY)
10)

11 **MOTION TO ALLOW ORIGINAL DOCUMENTS TO BE FILED BEYOND**
12 **NOTICE PERIOD**

13 The State of Alaska ("State") respectfully requests the Department of
14 Energy permit the State to submit its original filings beyond the current deadline
15 imposed under the DOE's notice. All other required copies of the State's submission
16 are being filed timely, and service on all Applicants is being made this day. The
17 original documents will follow for filing with DOE at the soonest time possible.

18 DATED this 6th day of April, 2007 at Anchorage, Alaska.

19 TALIS J. COLBERG
20 ATTORNEY GENERAL

21 By: 

22 Steve DeVries
23 Assistant Attorney General
24 Alaska Bar No. 8611105
25
26

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SJR 4



April 27, 2007

Members of the Senate Resources Committee
State Capitol
Juneau, Alaska

Dear Senators:

On behalf of Chugach Electric Association, I am writing to express support for the Committee Substitute for Senate Joint Resolution No. 4. The concerns expressed in the resolution are in line with Chugach's position on the application to extend the export license for natural gas from Cook Inlet.

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 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 year 2010. Chugach has been working for some time to secure new gas supplies with our existing suppliers and others. These negotiations continue today.

The needs of Chugach customers must continue to be our highest priority. 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.

Sincerely,

William R. Stewart
Chief Executive Officer

SJR 4



April 27, 2007

The Honorable Charlie Huggins, Chair
Senate Resources Committee
Alaska State Capitol, Room 119
Juneau, AK 99801-1182

RE: SJR 4 (Wielechowski)—Support

Dear Chair Huggins:

On behalf of the members of AARP in Alaska, we encourage you and your colleagues on the Senate Resources Committee to support SJR 4, authored by your Committee colleague Senator Bill Wielechowski and co-sponsored by Senators Johnny Ellis and Bettye Davis.

AARP claims no expertise in the sale of natural gas. What we do know is that many of our members are very concerned about increases in their utility bills. They are very aware that more rate "adjustments" are pending before the RCA and that their bills are likely to go even higher.

Utility costs for retirees are often higher than for younger people. Workers can turn down their thermostats when they leave the house. Retirees, on average, spend 90% of their time in the house and, for health reasons, should not be lowering the temperature of their homes. Older persons are also more likely to live in older homes with less insulation and suffer higher utility costs because of it.

Over the past fifteen years we turned the corner on the exodus of Alaskans upon retirement. They are now staying here and remaining close to their families and bringing substantial income to the state in the form of Social Security and pensions. We don't want to return to losing our retirees because they cannot afford utility costs with our Alaskan winters.

It is the intent of SJR 4 to help bring stability to utility costs, possibly even to reduce them or to minimize future increases. We certainly support that goal.

We urge an "AYE" vote on SJR 4.

Should you have any questions about our position, please feel free to contact me (586-3637) or Patrick Luby, AARP Advocacy Director (907-762-3314).

Thank you for your consideration.

Sincerely,

Marie Darlin

Marie Darlin, Coordinator
AARP Capital City Task Force
415 Willoughby Avenue, Apt. 506
Juneau, AK 99801
586-3637 (voice)
463-3580 (fax)

CC: Vice-Chair Bert Stedman
Senator Lyda Greene
Senator Gary Stevens
Senator Lesil McGuire
Senator Tom Wagoner
Senator Bill Wielechowski



AKPIRG

SR 4

A ALASKA ALASKA PUBLIC INTEREST RES ALASKA PUBLIC INTEREST RESEARCH
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AkPIRG Supports Senate Joint Resolution 4 - NATURAL GAS FOR STATE RESIDENTS

To: Senate Resources Committee

Dear Senate Resources Committee:

ConocoPhillips and Marathon Oil Corporation have jointly filed for a two-year extension of the Kenai Liquefied Natural Gas Plant's export license. The plant exports almost 40% of the natural gas produced each year in Cook Inlet.

While this facility provides benefit to the state and residents of the Kenai Peninsula, its export of a significant volume of natural gas is contributing to a shortage of gas in the region. It has also led to increasing natural gas prices for consumers. For example, the cost of home heating in Anchorage has almost doubled in the last 5 years alone. This is particularly hard for low-income and middle-income families.

Higher gas prices affect other utility rates as well. As stated in the resolution, approximately 473,000 people in the state, nearly 71 percent of the state's population, rely on natural gas from Cook Inlet to generate electricity for their homes and businesses.

Consumers in this state must have priority for the affordable natural gas. Alaska's constitution clearly states that Alaskan resources should benefit Alaskans:

"The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people."

This resolution will help ensure that consumers in Alaska will have access to affordable natural gas.

Thank you for your support of this legislation.
Sincerely,

Steve Cleary
AkPIRG Director

Founded in 1974, the Alaska Public Interest Research Group (AkPIRG) is a non-profit, non-partisan, citizen-oriented statewide organization researching, educating and advocating on behalf of the public interest. AkPIRG has 2,000 Alaskan members.



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P.O. Box 190288
Anchorage, AK 99519-0288
www.enstarnaturalgas.com

April 13, 2007

Senator Bill Wielechowski
Alaska State Senate
State Capital, Room 115
Juneau, Alaska 99501

Dear Senator Wielechowski,

On behalf of ENSTAR Natural Gas Company, we support Senate Joint Resolution 4; "A resolution urging the attorney general, the producers of natural gas in the Cook Inlet region, and the Regulatory Commission of Alaska (RCA) to work to secure long term and affordable supplies of natural gas for the people and businesses of the state"

Cook Inlet is the main gas supply for all of South Central Alaska natural gas needs. ENSTAR represents over 125,000 meters or 300,000 Alaskans. We enter into long-term contracts with various producers in Cook Inlet with three driving principles:

- 1) Assure a safe and reliable supply of natural gas for our customers.
- 2) Achieve the lowest price possible for our customers.
- 3) To continue encouraging exploration, thereby increasing the natural gas reserves.

ENSTAR negotiates our natural gas supply through several over-lapping contracts with producers. ENSTAR is increasingly concerned with its projected gas supply shortfall in 2009. We have unmet requirements beginning in 2009 that continue to worsen in 2010 and beyond. We have spent the last three years negotiating and submitting to the RCA a gas contract with Marathon that met our requirements through 2016. The contract was not approved by the RCA, which leaves the utility in a very uncertain situation. ENSTAR proactively issued a Request for Proposals from Cook Inlet producers last month.

ENSTAR Natural Gas Company has a long-term commitment to South Central Alaska. It is a corporate goal of ENSTAR to seek the most cost-effective delivery of natural gas to our customers and to participate fully in providing value to the communities we serve. Natural gas remains both cost effective and environmentally friendly compared to other energy sources. When compared to electricity, it is four to five times more cost effective. It produces

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All Our ENERGY Goes Into Our Customers

April 13, 2007

half as much greenhouse gas as coal and almost a third less than oil for the same amounts of energy.

ENSTAR's corporate positioning statement is "All Our Energy Goes Into Our Customers". That is true today and it remains true as we continue to advocate for low cost natural gas supplies for Alaska consumers.

It is time for the State of Alaska, Cook Inlet producers, and ENSTAR to work together in finding a solution that will ensure long term stable supply, encourage continued exploration at a fair price to the consumer.

We support and urge passage of SJR 4.

Sincerely,

A handwritten signature in black ink, appearing to read "Curtis W. Thayer". The signature is fluid and cursive, with a long horizontal stroke at the end.

Curtis W. Thayer

Director, Corporate and External Affairs

News & Announcements

State of Alaska > Governor > News > News Details

Palin Supports Extension with Conditions

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

###

DRAFT #2

CS for CS for SJR 4 (L&C)

A RESOLUTION

NEW TITLE NEEDED

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS approximately 340,000 Alaskans, or more than half the state's population, relies on natural gas from Cook Inlet to heat their homes; and

WHEREAS approximately 473,000 Alaskans, or nearly 71% of the state's population, relies on natural gas from Cook Inlet to generate electricity for their homes and businesses; and

WHEREAS these people live in communities from Fairbanks to the Kenai Peninsula, including Anchorage and the Matanuska-Susitna Borough; and

WHEREAS, natural gas produced from Cook Inlet is the sole source of gas used by the state's two largest regulated utilities to provide space heat and electrical generation for the majority of Alaskans;

WHEREAS, these utilities can not call on gas from any other state, Canada, or imported liquefied natural gas (LNG) to meet their needs;

WHEREAS ConocoPhillips and Marathon Oil Corporation have jointly filed for a two-year extension of the Kenai Liquefied Natural Gas Plant's export license with the United States Department of Energy (DOE); and

WHEREAS the Kenai Liquefied Natural Gas Plant currently exports about 1,300,000 metric tons of liquefied natural gas annually to buyers in Tokyo, representing approximately 36 percent of the natural gas produced in the Cook Inlet region; and

WHEREAS the Kenai Liquefied Natural Gas Plant plays an important role in the local and state economy, employs approximately 58 residents, and generates revenue for the state and the Kenai Peninsula Borough; and

WHEREAS the supply of natural gas in Cook Inlet relative to the demand has declined significantly in recent years, and production is forecast to decline precipitously over the next decade; and

WHEREAS the decline in supply relative to demand has resulted in skyrocketing

prices for local consumers, increasing home heating costs by 97 percent in the last five years and causing hardship for many low-income and middle-income families; and

WHEREAS, although the renewal of the license to export liquefied natural gas offers many benefits to the state, the state must have as a priority the availability of affordable natural gas to meet the needs of its people;

BE IT RESOLVED that the Alaska State Legislature calls on the DOE, when reviewing the Kenai LNG Plant's request for an export license extension, to consider whether the needs of Alaskans for natural gas for home heating and electrical generation during the period of the extension have been fully met through signed contracts between regulated utilities and gas suppliers; and be it

FURTHER RESOLVED that the Alaska State Legislature calls on the DOE to also consider the status of Cook Inlet gas reserves, the speed at which they're being depleted, and the level of exploration being carried out in Cook Inlet to identify new reserves; and be it

FURTHER RESOLVED that the Alaska State Legislature urges natural gas producers in the Cook Inlet region to work expeditiously with local utilities to ensure an adequate and affordable long-term supply of natural gas for Alaskans; and be it

FURTHER RESOLVED that the Alaska State Legislature urges the Regulatory Commission of Alaska to expedite review of any utility contract that will provide long-term and affordable supplies of natural gas for the people of the state.

COPIES of this resolution shall be sent to the Honorable Samuel W. Bodman, United States Secretary of Energy; the Honorable Talis J. Colberg, Alaska Attorney General; the Honorable Tom Irwin, Commissioner, Department of Natural Resources; the Honorable Emil Notti, Commissioner of the Department of Commerce, Community, and Economic Development; the Honorable Kate Giard, Chair of the Regulatory Commission of Alaska; Jim Bowles, President, ConocoPhillips Alaska, Inc.; John Barnes, Alaska Asset Team Manager, Marathon Oil Company; John Zager, General Manager, Chevron.

Takes
no
position
on
the
export
license
extension.
Just
asks
DOE
to
consider
the
needs
of
Alaskans.

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Palin Supports Extension with Conditions

FOR IMMEDIATE RELEASE 07-076

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"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.

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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.

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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

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Photo archive: Senator Olson and Representative Jónleifur Gunnarsson presented Governor Palin with a signed basketball from the winning Nunamirt Walee of Angaituk Oqaasig high school basketball team. [Enlarge >](#)

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SARAH PALIN
GOVERNOR
GOVERNOR, 301 STATE AN LN



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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.

U.S. Department of Energy
April 6, 2007
Page 2

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.

U.S. Department of Energy

April 6, 2007

Page 3

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,

A handwritten signature in cursive script, appearing to read "Sarah Palin".

Sarah Palin
Governor

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



April 27, 2007

The Honorable Charlie Huggins, Chair
Senate Resources Committee
Alaska State Capitol, Room 119
Juneau, AK 99801-1182

RE: SJR 4 (Wielechowski)—Support

Dear Chair Huggins:

On behalf of the members of AARP in Alaska, we encourage you and your colleagues on the Senate Resources Committee to support SJR 4, authored by your Committee colleague Senator Bill Wielechowski and co-sponsored by Senators Johnny Ellis and Betsy Davis.

AARP claims no expertise in the sale of natural gas. What we do know is that many of our members are very concerned about increases in their utility bills. They are very aware that more rate "adjustments" are pending before the RCA and that their bills are likely to go even higher.

Utility costs for retirees are often higher than for younger people. Workers can turn down their thermostats when they leave the house. Retirees, on average, spend 90% of their time in the house and, for health reasons, should not be lowering the temperature of their homes. Older persons are also more likely to live in older homes with less insulation and suffer higher utility costs because of it.

Over the past fifteen years we turned the corner on the exodus of Alaskans upon retirement. They are now staying here and remaining close to their families and bringing substantial income to the state in the form of Social Security and pensions. We don't want to return to losing our retirees because they cannot afford utility costs with our Alaskan winters.

04/27/2017 13:16 FAX 9073412270 AARP ALASKA STATE OFFICE 003/003

It is the intent of SJR 4 to help bring stability to utility costs, possibly even to reduce them or to minimize future increases. We certainly support that goal.

We urge an "AYE" vote on SJR 4.

Should you have any questions about our position, please feel free to contact me (586-3637) or Patrick Luby, AARP Advocacy Director (907-762-3314).

Thank you for your consideration.

Sincerely,

Marie Darlin

Marie Darlin, Coordinator
AARP Capital City Task Force
415 Willoughby Avenue, Apt. 506
Juneau, AK 99801
586-3637 (voice)
463-3580 (fax)

CC: Vice-Chair Bert Stedman
Senator Lyda Greene
Senator Gary Stevens
Senator Lesil McGuire
Senator Tom Wagoner
Senator Bill Wielechowski



Fax Cover Sheet

Alaska State Office
907.341.2270 fax
907.341.2277 voice
ak@aarp.org

3601 "C" Street,
Suite 1420

Anchorage, AK
98503

TO: SENATOR CHARLIE HIGGINS
COMPANY:

FROM:

PAT LABY

FAX

DATE:

907-762-3314

NUMBER:

#

1-907-465-3265

PAGES:

AARP is a nonprofit, nonpartisan membership organization dedicated to making life better for people 50 and over. We provide information and resources; engage in legislative, regulatory and legal advocacy; assist members in serving their communities; and offer a wide range of unique benefits, special products, and services for our members. These include AARP The Magazine, published bimonthly; AARP Bulletin, our monthly newspaper; Segunda Juventud, our quarterly newspaper in Spanish; Live and Learn, our quarterly newsletter for National Relined Teachers Association members; and our Web site, www.aarp.org. We have staffed offices in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.



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April 13, 2007

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Alaska State Senate
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Juneau, Alaska 99501

Dear Senator Wielechowski,

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All Our Energy Goes Into Our Customers

April 13, 2007

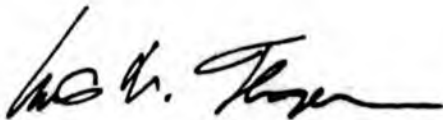
half as much greenhouse gas as coal and almost a third less than oil for the same amounts of energy.

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It is time for the State of Alaska, Cook Inlet producers, and ENSTAR to work together in finding a solution that will ensure long term stable supply, encourage continued exploration at a fair price to the consumer.

We support and urge passage of SJR 4.

Sincerely,

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Curtis W. Thayer

Director, Corporate and External Affairs

Testimony by John Norman, Chair
& Commissioner AOGCC

Dated: 4-18-07

**Alaska Oil and Gas Conservation Commission's
Comments regarding SB 80/HB128-OIL and
GAS PRODUCTION TAX: EXPENDITURES**

This legislation is proposed as a law of general application throughout the State of Alaska. With that in mind the Alaska Oil and Gas Conservation Commission's ("AOGCC") comments are framed without regard to any particular incident and instead with a view to how the law might apply throughout the state and in particular to new investors contemplating oil and gas operations in Alaska.

1. Policy Considerations:

- a. Is it advisable to deny leasehold expenditure deductions for costs resulting from errors which are not the consequence of fraud, willful misconduct, or gross negligence? Subsection (6) of AS 43.55.165(c) already disallows deductions for the expenses arising from fraudulent, willful misconduct or gross negligence.

Proposed subsection (19) would extend cost disallowance to acts other than those already addressed by subsection (6). Subsection (6) addresses costs related to willful misconduct or gross negligence, so we interpret subsection (19) as intended to disallow costs arising because of ordinary negligence. This would impose a penalty on the operator beyond what is customary in agreements between co-owners who enter into operating agreements for development of a commonly owned resource. Such agreements almost always absolve an operator of liability for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct. If it were otherwise and operators were liable for ordinary negligence (which is another way of saying making a mistake) they would be in the position of guaranteeing a trouble free operation. No operator would be willing to make that guarantee. It is generally recognized in the business world that mistakes happen but only when they result from willful misconduct or gross negligence is an operating partner normally penalized.

With the foregoing in mind subsection (19) departs from normal business practice and sets a higher standard than business partners in the oil and gas industry normally demand of each other. Similar reasoning could be applied to new operators contemplating operations in the State of Alaska under what they might perceive as a tax structure unforgiving of mistakes.

- b. Denial of Facility Shut Down Expenses. Subsection (19) (B) would deny expenses incurred to maintain operational capability of facility or equipment shut down because of improper maintenance. Is it good policy