

ALASKA STATE LEGISLATURE

Senator Bill Wielechowski

Senator Bettye Davis

Senator Hollis French



Representative Pete Petersen

Representative Berta Gardner

Representative Les Gara

Representative Chris Tuck

July 22, 2010

By Fax

Attorney General Sullivan
1031 W 4th Ave
Anchorage, AK 99501

Re: Reaffirming the 2008 Agreement To Require Local Gas Needs Be Met As Condition For Export License

Dear Attorney General Sullivan:

As you know, ConocoPhillips Alaska Natural Gas Corporation and Marathon Oil Company recently applied to the U.S. Department of Energy for an extension of their permit to export Cook Inlet gas to Asia (FE docket number 10-63-LNG). We are writing to request that you extend the previous agreement the state made with these entities when they last sought an export license. That 2008 agreement conditioned state consent on a binding commitment by ConocoPhillips and Marathon to meet local supply needs during the period of the export license. We ask that you do this, and intervene in this matter as permitted by federal law, to ensure that Alaskans have the gas supplies they need as a precondition to this extension. We have asked your office and the Department of Natural Resources whether this agreement will automatically extend to the 2011-2013 extension period, and have been informed, tentatively, that it will not. That concerns us, assuming this assessment is correct.

Currently Enstar is not confident it has enough natural gas on contract to supply Southcentral Alaska's energy needs between 2011-2013. While Enstar officials state it is conceivable they may have enough gas supply on contract, it is in all of our interests to ensure this is the case, so local residents do not face the prospect of losing power, or paying exorbitant prices for an emergency contract.

We are writing to ask that the state require an agreement similar to the ***2008 settlement agreement between the State, ConocoPhillips and Marathon, which legally bound them, in writing, to meet local natural gas demands*** in exchange for the state's agreement to an export license. The Attorney General was a signatory to that agreement. (See attached.)

The State Required ConocoPhillips and Marathon To Make Written, Binding Commitments To Supply Local Gas Needs Before Agreeing to the 2008-2011 Export Period

In 2008, the State objected to the Conoco/Marathon export application until it signed a binding agreement to meet local gas needs. Only upon that written agreement did the state support the 2008-2011 export license application. We have asked the Attorney General's Office whether that agreement will still be binding in 2011-2013 and have been informed that it likely will not be. Unless this advice is incorrect, ConocoPhillips will have no binding commitment after March 31, 2011, to meet local gas needs as a condition for exporting natural gas to Asia.

Attached is the 2008 agreement. It required three things we request here:

- 1) that ConocoPhillips and Marathon meet local gas needs by offering to sell natural gas at a price approved by the regulatory Commission of Alaska (RCA);
- 2) that ConocoPhillips and Marathon keep their export facility open to other producers to incentivize exploration, and so these producers have a market for natural gas they discover; and,
- 3) that ConocoPhillips and Marathon continue to invest in additional Cook Inlet exploration to replace volumes exported overseas.

We Support Continuance of the Conoco/Marathon LNG Export Facility

We agree the Conoco/Marathon LNG facility is important to the state, and allows a market for excess natural gas produced in Cook Inlet. All we are requesting is that these gas producers commit to make natural gas available to Alaskans at a price that is approvable by the RCA. While Marathon has done this for the period of the proposed export license extension, ConocoPhillips has not, and Enstar continues to seek additional gas supply commitments for their Alaska customers.

We Believe Gas Storage Facilities Will Help Solve this Problem when Built in 2012 or 2013

We all voted to support legislation to help create natural gas storage facilities in Cook Inlet, and all voted to support Cook Inlet exploration incentives to help promote a more vibrant natural gas supply. It is expected that storage facilities will help smooth the supply of natural gas when they are built, though completion is expected by 2012 at the earliest.

Background Facts/Red Herrings

As you know, Section 3 of the Natural Gas Act requires that any export of gas from the U.S. to a foreign country must be "consistent with the public interest." The primary factor to be considered when making this determination is whether there is regional need for the gas.

ConocoPhillips and Marathon have made a few assertions, none of which guarantee a local gas supply. First, in their application they state that existing supply contracts will "satisfy **virtually all** of the utilities' natural gas needs through the term of the requested blanket authorization." This is both a concession that all supply needs are not met, and an exaggeration. The local gas company which serves roughly half of Alaska's population is potentially short about .9 billion

cubic feet of gas in 2011 and 1.1 billion cubic feet in 2012. Then, in the first quarter of 2013, more than one-third of the region's need is potentially unmet. Unless a best case scenario occurs, families and businesses in Southcentral Alaska could be left in a perilous position. This is a risk, however small, that we should not take. We have been informed by Enstar representatives that in a best-case scenario, it is possible that no or minor shortages will occur, but Enstar is responsibly seeking additional natural gas supplies to ensure there will be no shortage.

Likewise, ConocoPhillips and Marathon state that they have been reliable in meeting natural gas demand in the past. They have been good partners. But they met natural gas demand in 2008-2011 because they were required to do so by contract, not out of charity. A contract is likewise needed this time.

To date Enstar represents that it has not concluded a supply contract to meet all its potential 2011-2013 needs. The State, by making similar demands to those made in 2008, will encourage these gas producers to execute the needed supply agreements so Alaskans do not risk going without critical heating fuel. We should also remind you that comments and a state motion to intervene must be filed by August 2, 2010.

We hope you will take action similar to that taken in 2008.

Sincerely,



Senator Bill Wielechowski



Senator Bettye Davis



Senator Hollis French



Representative Pete Petersen



Representative Berta Gardner



Representative Les Gara



Representative Chris Tuck

cc: Governor Sean Parnell
Tom Irwin, Department of Natural Resources
Marty Rutherford, Department of Natural Resources
Kevin Banks, Department of Natural Resources