10-63-LNG ORIGINAL

ENSTAR
Natural Gas Company

AUG 0 2 2010

DOE/OFE/NGR

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Via Fax

August 2, 2010

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

RE: FE Docket No. 10-63-LNG
ConocoPhillips Alaska Natural Gas Corporation and Marathon Oil Company
Application for Blanket Authorization to Export Liquefied Natural Gas

To Whom It May Concern:

ENSTAR Natural Gas Company, a division of SEMCO Energy, Inc. providing natural gas service to approximately 130,000 customers in Anchorage and the Cook Inlet area of Alaska, writes to express support for the proposed two-year extension of the Kenai LNG export authorization. This extension would permit ConocoPhillips Alaska Natural Gas Corporation and Marathon Oil Company to export the unutilized portion of the 99 Trillion British Thermal Units the Department of Energy previously permitted these two companies to export from the Kenai facility.

ENSTAR is the largest energy utility in the State of Alaska, serving over half of the state's population. ENSTAR depends entirely on Cook Inlet natural gas to meet the needs of its customers. ENSTAR has two gas supply contracts with Marathon affiliates during the proposed extension period. ENSTAR recently negotiated a gas supply contract with ConocoPhillips for additional non-firm gas during the proposed extension period and will shortly seek approval of that agreement by Regulatory Commission of Alaska. The 2010 negotiated contracts are the result of extensive negotiations and are the best terms the producers were willing to offer.

As part of these contractual arrangements, both Marathon and ConocoPhillips have agreed to divert gas from the Kenai LNG export facility to the local market to meet their contractual obligations and, during periods of high gas demand, to make interruptible gas sales. The primary condition on this diversion commitment is that the producer will divert gas to ENSTAR's customers subject to the following limitations in the Marathon and ConocoPhillips contracts;

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> *provided, however* that Seller shall not be obligated to curtail its deliveries of Gas to the LNG Facility if such curtailment will result in any material operational difficulties or technical harm to the LNG Facility.[1]

> In no event, however, will Seller be obligated to curtail deliveries to the LNG Facility in favor of deliveries to Buyer if Seller determines, in its sole discretion, that the curtailment would result in any material operational difficulties or technical harm to the LNG Facility. [2]

Neither Marathon nor ConocoPhillips was willing to meet all of the unmet needs of ENSTAR's customers for gas during the export period on a firm basis, meaning that ENSTAR will be relying on as-available, non-firm volumes (including flowing gas diverted from the LNG export facility) to meet the forecasted peak needs of its customers. If non-firm gas is not available from Marathon or ConocoPhillips at times of peak demand, ENSTAR will be obliged to find other gas supplies, rely on fuel-switching or electricity imports by local electric utilities, and/or ask customers to conserve gas on peak days.

Despite the lack of firm contractual commitments from both owners of the LNG export facility to meet the entire unmet gas supply requirements of ENSTAR's customers, ENSTAR nonetheless supports the extension of the export authorization period, primarily because:

- The ability to divert gas deliveries from the LNG export facility currently functions as back-up natural gas supply for the local market. The diversion of this gas is a critical supply resource on the coldest winter days.
- A joint venture involving affiliates of SEMCO Energy, Inc. and MidAmerican Energy Holdings Company has recently applied to the RCA for a certificate for a new, RCA-regulated gas storage facility in Alaska. The proposed in-field gas storage facility will not be fully operational until the winter of 2012-13, at the earliest. The requested export extension would allow the LNG export facility to continue to operate and thus for gas to be diverted from the plant for local use until the new underground storage is in place.

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[1] Section 2.4(b), Gas Sales Agreement, Marathon Alaska Production and Alaska Pipeline Company, April 8 2010.

[2] Section 2.5, Gas Sales Agreement, ConocoPhillips Company and ConocoPhillips Alaska, Inc. and Alaska Pipeline Company, August 1, 2010.

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- If the requested LNG exports were not permitted by the DOE and the facility were shut down during 2011-2013, Marathon has the contractual right to reduce its deliveries to ENSTAR by 14MMcfd under the recent, RCA-approved APL-8 contract. Such a reduction in deliveries would effectively increase the unmet needs of ENSTAR's customers during the winter months when demand for gas to heat their homes and businesses is highest. Said more simply, DOE's denial of the requested LNG export license extension would likely put ENSTAR and its customers in a worse gas supply position during the export license extension period.
- Export-driven demand for natural gas during the summer months allows local producers to keep Cook Inlet wells flowing during periods of low utility customer demand. ENSTAR understands that this steady demand contributes to the maintenance of well deliverability and the protection of reserves, which are both important to insure the availability of natural gas for ENSTAR's customers during the winter months.

Under these particular circumstances, ENSTAR believes the continued operation of the LNG export facility should be authorized. ENSTAR encourages the DOE to approve the LNG export license extension application submitted by ConocoPhillips and Marathon.

Sincerely,

M. Colleen Starring

M. Colleen Starring
President

cc: Chugach Electric Association, Inc
ConocoPhillips Alaska, Inc.
Marathon Alaska Production LLC