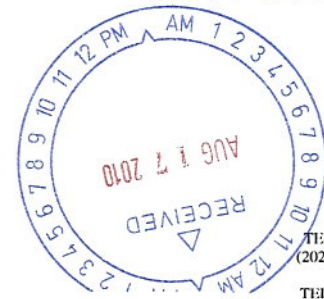


ORIGINAL

JOHN & HENGERER
A LAW PARTNERSHIP
1730 RHODE ISLAND AVENUE, N.W.
SUITE 600
WASHINGTON, D.C. 20036-3116



TELEPHONE
(202) 429-8801
TELECOPIER
(202) 429-8805

DOUGLAS F. JOHN
KEVIN M. SWEENEY
KIM M. CLARK
GORDON J. SMITH
MATTHEW T. RICK
ELIZABETH A. ZEMBRUSKI

August 17, 2010

Via Hand-Delivery

Mr. John Anderson
U.S. Department of Energy (FE-34)
Office of Oil and Gas Global Security and Supply
Office of Fossil Energy
Forrestal Building
1000 Independence Avenue, S.W.
Washington, D.C. 20585

**Re: ConocoPhillips Alaska Natural Gas Corporation and Marathon Oil Company,
FE Docket No. 10-63-LNG**

Dear Mr. Anderson:

On June 8, 2010, ConocoPhillips Alaska Natural Gas Corporation (“CPANGC”) and Marathon Oil Company (“Marathon”) (collectively, “Applicants”) filed an application with the Office of Fossil Energy (“FE”) of the Department of Energy (“DOE”) for an order granting blanket authorization to export a quantity of liquefied natural gas (“LNG”) equal to the difference between the 99 Trillion British thermal units (“TBtus”) authorized by FE in DOE Opinion and Order Nos. 2500¹ and 2500-A,² and the cumulative volume that is ultimately exported by Applicants under their currently-effective blanket authorization from April 1, 2009 through March 31, 2011. Applicants seek blanket authorization to export this volume of LNG from facilities located near Kenai, Alaska over a two-year period commencing April 1, 2011 and terminating March 31, 2013. The export application has been docketed as shown above.

Pursuant to the Notice published in the *Federal Register* on July 1, 2010,³ motions to intervene or notices of intervention, protests, requests for additional procedures, and comments on Applicants’ export application were due on August 2, 2010. Nine timely comments and one out-of-time comment have been filed with FE. Significantly, no motions to intervene or notices of intervention were submitted, with the result that no one has sought to become a party to this proceeding. Nor has anyone filed a protest or request for additional procedures. Consequently,

¹ DOE/FE Order and Opinion No. 2500, 2 FE ¶ 71,623 (Jun. 3, 2008) (Order No. 2500).

² DOE/FE Order and Opinion No. 2500-A, 2 FE ¶ 71, 652 (Jul. 30, 2008) (Order No. 2500-A).

³ *ConocoPhillips Alaska Natural Gas Corp. and Marathon Oil Co.; Application for Blanket Authorization to Export Liquefied Natural Gas*, 75 Fed. Reg. 38093 (Jul. 1, 2010).

the export application is formally uncontested. Applicants, nevertheless, seek leave to respond to certain concerns raised in a few of the comments merely for clarification purposes.⁴

Applicants filed a number of letters and resolutions in support in Appendix C of their export application, including the unanimous resolutions passed by both the Senate and House of the Alaska State Legislature which urge DOE to expeditiously approve the export authorization requested by Applicants.⁵ Notwithstanding these unanimous and unqualified resolutions in support by the Alaska State Legislature as a whole, a group of seven state legislators provided their own comments on the export application in a letter dated July 8, 2010.⁶ These state legislators stated that their continued support for the exportation of LNG from Alaska is dependent on estimated future local natural gas needs being fully met by executed natural gas supply contracts with producers, and asserted that an unnamed local gas company did not yet have a portion of its projected natural gas demands under contract.⁷ The state legislators also stated that they had recently written to the President of ConocoPhillips Alaska, sharing their concerns regarding regional natural gas needs.

In comments filed on August 3, 2010, Governor Sean Parnell offered support for conditional approval of Applicants' export application. Governor Parnell acknowledged the benefits provided by the LNG export facility, and commented that the requested export authorization should be approved upon an extension of the terms of an existing settlement between the State of Alaska and Applicants, which settlement he characterized as providing for "a showing that (1) local utility gas supply needs are met, particularly during times of shortage, under terms that protect Alaskans' interests, and (2) third-party producers will be allowed access to the export facility under terms FE deems reasonable."

Applicants have addressed the concerns raised in these comments in their export application. With respect to satisfying local utility natural gas needs, Applicants noted on page 12 of their export application that an affiliate of Marathon had entered into natural gas supply contracts with both Chugach Electric Association, Inc. ("Chugach") and ENSTAR Natural Gas Company ("ENSTAR") that have been approved by the Regulatory Commission of Alaska ("RCA"), which contracts, together with preexisting natural gas supply contracts, would satisfy substantially all projected local utility natural gas demand through the term of the requested export authorization. Chugach's support for the requested export authorization was reflected in a letter included in Appendix C of the export application in which Chugach stated that its natural gas needs have been met through 2014.

More recently, in a letter of support for the export application filed on August 2, 2010, ENSTAR reported that it had negotiated a new natural gas supply contract with an affiliate of CPANGC for additional non-firm service during the proposed export period for which it will

⁴ This letter should not be construed as an amendment or supplement to the export application.

⁵ One state legislator, Rep. Mike Hawker, consistent with the unanimous House resolution, filed a letter of unqualified support for the export application.

⁶ One of the public citizen comments included a copy of the state legislators' letter as an attachment and another public citizen attached a press release from one of the state legislators to their comments.

⁷ Significantly, the state legislators' letter was written before ConocoPhillips and ENSTAR entered into the natural gas supply contract referenced in the comments filed by ENSTAR on August 2, 2010, discussed below. Under that agreement, ConocoPhillips is contractually committed to divert natural gas from the LNG export facility in times of high demand, subject only to the right to keep enough natural gas to avoid material operational difficulties or technical harm to the facility.

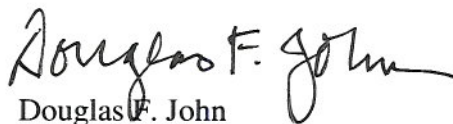
shortly seek RCA approval. Additionally, and consistent with the representations made by Applicants in the export application, ENSTAR noted that, as part of their contractual arrangements, both Marathon and ConocoPhillips have agreed to divert natural gas from the export facility to the local market. ENSTAR went on to list the reasons it supports the export authorization requested by Applicants even though a relatively small percentage of its forecasted natural gas supply requirements are not currently under firm contract.⁸

In the attached letter dated July 13, 2010, Mr. Trond-Erik Johansen, the President of ConocoPhillips Alaska, responded to the letter sent to him on July 8, 2010 by the same seven state legislators who submitted joint comments to FE on the export application. Mr. Johansen's letter reaffirmed ConocoPhillips' commitment to meet its obligations under its natural gas supply contracts with ENSTAR and Chugach. Mr. Johansen also cited the vital role that the export facility plays in providing natural gas supply stability in Southcentral Alaska, reiterating Applicants' commitment to continue to divert plant inlet volumes when necessary in order to meet supply obligations to local customers, including utilities, during times of peak local demand. In response to Governor Parnell's concern regarding access to the LNG Plant, Mr. Johansen observed that operation of the export facility creates a market into which any potential producer in the Cook Inlet could place natural gas. Applicants have purchased natural gas for export during the currently-effective export authorization and are willing and expect to continue this practice during the requested export authorization.

The State of Alaska's local supply concerns in the period while additional natural gas storage capacity is being developed are best met by granting the application. Chugach and, more recently, ENSTAR - which as utilities are in the best position to assess local demand - both express unconditional support for the export application. The continued operation of the LNG export facility will enhance the overall local gas supply system's capability to supply local demand in periods of peak demand, while denying the application would reduce that capability

Applicants have previously made, and continue to affirm, commitments that address each of the concerns raised in the comments submitted, and therefore request that FE unconditionally approve their June 8, 2010 export application as soon as possible.

Respectfully submitted,


Douglas F. John

Counsel for ConocoPhillips Alaska Natural Gas
Corporation and Marathon Oil Company

Enclosure

⁸ For example, ENSTAR noted that, while its affiliates and Mid-American Energy Holding Company have jointly applied for an in-field gas storage facility, that facility will not be ready until the winter of 2012-13, at the earliest. As ENSTAR correctly observes, "[t]he requested export license 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."



Trond-Erik Johansen
President

ConocoPhillips Alaska
700 G Street, ATO-2100 (99501)
P.O. Box 100360
Anchorage, AK 99510-0360
phone 907.265.6511
fax 907.265.6922

July 13, 2010

Senator Bill Wielechowski
Senator Bettye Davis
Senator Hollis French
Representative Pete Peterson
Representative Berta Gardner
Representative Les Gara
Representative Chris Tuck

RE: Kenai LNG Exports

Dear Honorable Alaska Legislators:

This is in response to your letter to me dated July 8, 2010, regarding the continued operation of the Kenai LNG Export facility. With respect to your specific concern regarding natural gas supplies¹ available to ENSTAR during the term of the requested time extension for Liquefied Natural Gas (LNG) exports, ConocoPhillips has been and continues to actively work with ENSTAR regarding their gas supply needs both in the near and longer term. In addition, there are other companies that may be in discussions with ENSTAR regarding their gas supply needs. As you know, ConocoPhillips is not the only supplier of natural gas in the Cook Inlet. ConocoPhillips has clearly demonstrated its commitment to the southcentral market not only through diversion of plant inlet volumes during times of peak need, but also through our commitment to a seven-year, 68 billion cubic feet sales contract with Chugach Electric in 2009. I also want to assure you that ConocoPhillips will continue to honor this contract and meet the obligations of all of our existing gas supply contracts with ENSTAR and Chugach Electric.

As you are well aware, Cook Inlet does not yet have sufficient natural gas storage to meet the highly cyclical needs of the southcentral gas market. The Kenai LNG plant has effectively substituted for that much needed storage through diversion of volumes away from the plant inlet and into the local market during times of peak need typically in the winter, thereby providing a highly valuable service and allowing the southcentral market to delay this critical and necessary investment.

The application made by ConocoPhillips and Marathon to the United States Department of Energy (DOE) is in effect a request for additional time to export the previously approved

¹ It is important to note that the volumes that you described ENSTAR is "short" for 2011 and 2012 represent approximately 1.2 percent of total local needs for that time period.

volumes. There is no request to export additional volumes out of Alaska. In addition, there is no guarantee that these previously approved volumes will be exported over the entire two-year time frame, or at all, as we noted in our application to the DOE, due to a number of outstanding commercial items.

Under Section 3 of the Natural Gas Act, the DOE must approve the application unless it finds that the export will not be consistent with the public interest. The export of the 99 trillion btu's was found to be in the public interest in the most recently-approved export application. ConocoPhillips believes strongly that an allowance for more time to export the already authorized volumes is in the public interest for two primary reasons: (1) it creates the opportunity for the plant to continue operations, which maintains the capability to divert natural gas from the plant to local use during times of peak need, and; (2) it allows Cook Inlet natural gas production to remain consistently online through seasonal demands, thus helping ensure maximum deliverability to meet local needs. If the plant does not continue to operate, it is likely that producing wells would be shut-in during times of low demand, which, due to the nature of these Cook Inlet natural gas wells, would create a risk of "water load-up" of the wells which could in turn render the wells unable to flow during times of peak need. Additionally, continued operation of the plant will maintain local jobs and generates significant tax and royalty income to State and local governments.

Keeping the Kenai LNG plant open helps to support southcentral supply by creating a consistent market into which any potential exploration and production company in the Cook Inlet could place gas. Access to a larger market and a steady base load of natural gas demand throughout the year, which the LNG plant provides, could be critical to companies that are considering investment in the Cook Inlet.

Furthermore, ConocoPhillips has aggressively pursued additional supplies of natural gas, as evidenced by more than \$150 million (gross) of capital spend on development of wells at our North Cook Inlet Field and our Beluga River Field since 2008. We will continue to evaluate and pursue all opportunities to economically develop additional supplies of natural gas in the Cook Inlet.

I am pleased that there has been such widespread support for the export license application from numerous organizations across southcentral Alaska. I am also very appreciative of the support from the Alaska State Legislature, as evidenced by the resolutions that were unanimously passed by both the House and Senate supporting the expeditious approval by the DOE of the current application.

I appreciate your interest in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "T. E. Johansen", written in a cursive style.

Trond-Erik Johansen