

Representative Mike Hawker

Alaska State Legislature

10-63-LNG



July 30, 2010

John A. Anderson
Manager, Natural Gas Regulatory Activities
Office of Oil and Gas Global Security and Supply
Office of Fossil Energy
U.S. Department of Energy
Forrestal Building, Room 3E-042
1000 Independence Avenue, SW
Washington, D.C. 20585

RE: FE Docket No. 10-63-LNG

Dear Mr. Anderson,

I strongly support Department of Energy approval of ConocoPhillips Alaska Natural Gas Corp. and Marathon Oil Company's application for blanket authorization to continue liquefied natural gas exports from facilities near Kenai, Alaska.

Exports have served for many years as a foundation for a natural gas industry in Alaska's Southcentral region, home to about half the state's entire population. The area is heated and powered almost entirely with Cook Inlet natural gas, yet combined residential, business and industrial demand is small by standards most anywhere else in the nation. The regional market is further challenged by extreme seasonal fluctuations which drive winter demand to about 14 times that of summer.

The ability to export production beyond the volumes required by the limited regional demand has expanded a narrow, unappealing market for producers. Excess production in low-demand summer months can be marketed as LNG exports; and at peak demand in winter, producers ease off exports, freeing supply to meet regional needs. And as production from existing wells – some of which have been online for 40 years – tapers off, new plays aren't developing quickly enough to assuage supply concerns. The gas is tougher and far costlier to access; companies face tighter regulatory and permitting structures that can spawn delays and additional expense; and there's little certainty as to the future health of regional markets, especially without the added attractiveness of export when local demand is low.

In the immediate outlook, the region faces serious deliverability problems during the coldest days of winter, problems which could increase exponentially with even a minor breakdown in the area's aged generation and transmission infrastructure. To date, the export facility has proven the linchpin holding the entire production, distribution and supply chains together. The need to maintain, at a minimum, existing production levels in Cook Inlet is immediate and pressing, and depends in large part on the ability to export.

Facility operators ConocoPhillips and Marathon are now requesting an additional two years to export the balance of volumes previously approved by the Department of Energy. Without authorization to continue exports through March 31, 2013, natural gas supply to regional homes, businesses and industry is in jeopardy. Further, the export facility itself is increasingly seen as a

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potentially critical asset to boost the attractiveness of routing economical volumes of North Slope gas to Southcentral Alaska, should one of the two large gasline proposals now under consideration bear fruit.

The Alaska Legislature in 2010 took a significant step toward boosting overall production and securing stronger deliverability with new storage facilities by passing financial incentives and regulatory reforms in the Cook Inlet Recovery Act. I, along with my legislative colleagues, continue to seek additional state-level solutions to protect the region's heat and electric systems, but the LNG export facility is critical in maintaining the precarious balance we have now struck.

It's true that regional utilities have not yet finalized supply contracts with natural gas producers to meet full expected demand in the next several years, but the gap is a small percentage of total need. I fear that without the option of continued exports at Kenai, producers will be confronted with additional disincentives to maintain current production levels, potentially darkening the chances of contracts closing even that narrow gap.

Clearly, additional time to continue exports of the previously approved volumes is in the public interest for people and businesses in Southcentral Alaska – in fact, continued operations at the Kenai LNG Facility are critical in enabling natural gas suppliers to meet residential, commercial, industrial and military needs in the region.

Sincerely,



Representative Mike Hawker
House Finance Committee Co-Chairman
Alaska State Legislature, House District 32