

[6450-01-P]

DEPARTMENT OF ENERGY

Office Of Fossil Energy

[FE Docket No. 07-02-LNG]

ConocoPhillips Alaska Natural Gas Corporation and Marathon Oil Company; Application for Blanket Authorization to Export Liquefied Natural Gas

AGENCY: Office of Fossil Energy, DOE.

ACTION: Notice of Application.

SUMMARY: The Office of Fossil Energy (FE) of the Department of Energy (DOE) gives notice of receipt of an application filed jointly on January 10, 2007 by ConocoPhillips Alaska Natural Gas Corporation (CPANGC) and Marathon Oil Company (Marathon), requesting blanket authorization to export on their own behalf or as agents for others on a short-term or spot market basis from existing facilities near Kenai, Alaska up to 99 Trillion British thermal units (TBTu's)(approximately 99 Billion cubic feet (Bcf)) of liquefied natural gas (LNG) to Japan and/or one or more countries on either side of the Pacific Rim over a two year period commencing April 1, 2009 and terminating March 31, 2011.

The application is filed under section 3 of the Natural Gas Act (15 U.S.C. § 717b), as amended by section 201 of the Energy Policy Act of 1992 (Pub. L. 102-486), and DOE Delegation Order No. 00-002.00G (Jan. 29, 2007) and DOE Redelelegation Order No. 00-002.04C (Jan. 30, 2007).

Protests, motions to intervene, notices of intervention, and written comments are invited.

DATES: Protests, motions to intervene or notices of intervention, as applicable, requests for additional procedures, and written comments are to be filed at the address listed below no later than 4:30 p.m., eastern time, (**Insert date of 30 days after publication of this Notice in the Federal Register**).

ADDRESSES:

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, S.W.
Washington, D.C. 20585

FOR FURTHER INFORMATION CONTACT:

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SUPPLEMENTARY INFORMATION:

Background

CPANGC, a Delaware corporation with its principal place of business in Anchorage, Alaska, is a wholly-owned subsidiary of ConocoPhillips Company, a publicly traded Delaware corporation.

Marathon is an Ohio corporation with its principal place of business in Houston, Texas. CPANGC

and Marathon are not affiliated with each other. The applicants are joint indirect owners of natural gas liquefaction and marine terminal facilities near Kenai, Alaska (Kenai LNG Facility) on Cook Inlet in Southcentral Alaska.¹

Existing Long-Term Authorization

The applicants hold an existing long-term authorization to export LNG to Japan granted to CPANGC predecessor Phillips Petroleum Company (Phillips) and Marathon by the Federal Power Commission in 1967.² Phillips and Marathon were specifically authorized to export LNG from the State of Alaska to supply Tokyo Electric Power Company Inc. (Tokyo Electric) and Tokyo Gas Company Limited (Tokyo Gas) for a 15-year period terminating on May 31, 1984. The order also authorized Phillips and Marathon to construct the necessary liquefaction and marine terminal facilities in the Cook Inlet Basin near Kenai, Alaska. The long-term export authorization was subsequently amended and extended by the Economic Regulatory Administration (ERA) at various times between 1982 and 1987.³

On July 28, 1988, ERA granted CPANGC, then known as Phillips 66 Natural Gas Company, and Marathon an extension of the long-term authorization to export LNG to Japan for a term of 15 years, ending March 31, 2004. FE subsequently approved amendments of the long-term authorization at various times between 1991 and 1995.⁴

¹/ The Kenai LNG Facility is owned by the Kenai LNG Corporation. CPANGC has a 70-percent ownership interest and Marathon has a 30-percent ownership interest in Kenai LNG Corporation.

²/ See, *Phillips Alaska Natural Gas Corporation and Marathon Oil Company*, 37 FPC 777 (April 19, 1967).

³/ See, DOE/ERA Opinion and Order No. 49 (1 ERA ¶ 70, 116, December 14, 1982) (extended export authority); DOE/ERA Opinion and Order No. 49-A (1 ERA ¶ 70,127, April 3, 1986) (transferred authorization from Phillips Petroleum Company to Phillips 66 Natural Gas Company); DOE/ERA Opinion and Order No. 206 (1 ERA ¶70,128, November 16, 1987) (amended pricing formula)

⁴/ See, DOE/ERA Opinion and Order No. 261 (1 ERA ¶ 70,130, July 28, 1988) (extended export authority); DOE/FE Opinion and Order No. 261-A (1 FE ¶ 70,454, June 18, 1991) (amended pricing formula); DOE/FE Opinion and Order No. 261-B (1 FE ¶70, 506, December 19, 1991) (transferred authorization from Phillips 66 Natural Gas Company to PANGC); DOE/FE Opinion and Order No. 261-C (1 FE¶ 70,607, July 15, 1992) (increased annual contract quantity from 52 trillion Btu's to 64.4 trillion Btu's-the provision for yearly sales up to 106 percent of annual contract quantity remained unchanged); DOE/FE Opinion and Order No. 261-D (1 FE¶ 71,087, March 2, 1995) (amended pricing formula); DOE/FE Opinion and Order No. 261-E (2 FE ¶ 71,429, July 18, 1997) (dismissed complaint).

On April 2, 1999, in DOE/FE Order No. 1473, FE granted CPANGC predecessor Phillips Alaska Natural Gas Corporation (PANGC) and Marathon a further five-year extension of the long-term authorization to annually export up to 64.4 TBtu's of LNG to Japan commencing April 1, 2004 through March 31, 2009.⁵ The commencement date proposed by the applicants for the blanket export authorization coincides with the anticipated termination of the applicants' currently effective long-term authorization issued in Order No. 1473.

On June 20, 2000, FE granted PANGC and Marathon approval of a revision in the pricing provisions of their Japanese sales contracts.⁶

Existing Blanket Authorization

On April 10, 2000, in DOE/FE Order No. 1580, FE granted PANGC and Marathon blanket authorization to export up to 10 TBtu's (10 Bcf) of LNG from the Kenai LNG facility to international markets in the Pacific Rim over a two year period beginning on the date of the first export.⁷ Although this blanket authorization was intended to supplement the long term authorization issued in DOE/FE Order No. 1473, the blanket authorization issued in DOE/FE Order No. 1580 has not been activated to date and no exports of LNG under this blanket authorization have been made.

Current Application

In the instant application, the applicants initially requested that FE vacate the blanket authorization issued in DOE/FE Order No. 1580 contemporaneous with, and conditioned on, the issuance of the proposed blanket authorization sought in this application. However, by letter dated

⁵/ See, *Phillips Alaska Natural Gas Corporation and Marathon Oil Company*, DOE/FE Opinion and Order No. 1473 (2 FE ¶ 70,317, April 2, 1999).

⁶/ See, DOE/FE Opinion and Order No. 261-F (2 FE ¶ 70,506, June 20, 2000) (amended pricing provisions of Japanese sales contracts).

⁷/ See, *Phillips Alaska Natural Gas Corporation and Marathon Oil Company*, DOE/FE Opinion and Order No. 1580 (2 FE ¶ 70,472, April 10, 2000).

February 16, 2007, the applicants subsequently notified DOE that they are contemplating the activation of the blanket authorization issued in DOE/FE Order No. 1580. The applicants further state in the February 16 letter that if they activate the Order No. 1580 blanket authorization before the Department issues a favorable order in the instant proceeding, it will not be necessary for the Department to vacate the Order No. 1580 authorization. Alternatively, the applicants state that if the Department issues a favorable order herein before the applicants activate the Order No. 1580 authorization, then the applicants seek to reserve the ability to activate the Order No. 1580 authorization prior to the time period covered by the instant application.

Public Interest Considerations

In support of their application, CPANGC and Marathon state there is no regional need for the volume of LNG that they seek authority to export during the two year time period of the proposed authorization. The applicants commissioned separate studies by two independent consulting firms, Netherland, Sewell & Associates (NSAI) and Resource Decisions (RD), to assist in determining the regional need for the natural gas proposed to be exported as LNG. The NSAI study evaluates natural gas reserves in the Cook Inlet region of Alaska and the RD study provides an analysis of the available supply and the effective demand for Cook Inlet natural gas during the term of the proposed blanket authorization. The RD study, in particular, postulates “Expected Cases” and “Stress Cases” for natural gas supply and demand in Southcentral Alaska in order to discern the possible impact of the export of LNG on regional need from 2006 through the first quarter of 2011. The applicants state the Expected Demand Case employs the most likely estimates for Southcentral Alaska natural gas demand and the Expected Supply Case employs the most likely estimates for Cook Inlet natural gas supply. The Stress Demand Case, on the other hand, reportedly employs regional natural gas demand assumptions that are higher than expected and the Stress Supply Case

employs Cook Inlet natural gas supply assumptions that are lower than expected. The applicants project that under all of the analyzed scenarios, there are sufficient supplies of natural gas and other energy sources to meet both the regional demand of Southcentral Alaska and the foreign export market during the two year period of the proposed export authorization.⁸

With respect to national need, CPANGC and Marathon state that shipment of LNG from the applicants' Kenai LNG facilities to the lower 48 states does not appear to be a viable option due to certain regulatory and economic hurdles. The applicants emphasize that the requirements of Section 27 of the Merchant Marine Act of 1920 (46 U.S.C. § 883), commonly known as the Jones Act, would present a substantial regulatory hurdle. The applicants also emphasize that there are no existing U.S. west coast LNG receiving terminals and the cost of shipping Kenai LNG to U.S. east coast or Gulf Coast LNG receiving terminals would vastly exceed the cost of transporting the same LNG to Japan and/or another customer in the Pacific Rim due to the distances involved.

The applicants assert that approval of the requested authorization to export Cook Inlet LNG from Kenai to Japan and/or one or more countries on either side of the Pacific Rim will provide tangible benefits to the Alaskan economy and to U.S. national interests. The applicants maintain that the Kenai LNG Facility provides a stable source of income and employment in Southcentral Alaska, an area noted for seasonal unemployment and a marked cyclical response to world oil price changes. The operation of the Kenai LNG Facility reportedly provides employment generating an estimated \$15.9 million dollars in personal income.⁹ The State of Alaska and its citizens also benefit from royalty payments on the LNG and from production and corporate income tax receipts. The applicants assert that a denial of the application will lead to the end of LNG exports from the

⁸/ See Resource Decisions, Economic Analysis of Kenai LNG Export (January 2007) included as Appendix C to the application of CPANGC and Marathon filed January 10, 2007; and Netherland, Sewell & Associates report evaluating natural gas reserves in the Cook Inlet region of Alaska (January 4, 2007), included as Appendix D to the application of CPANGC and Marathon filed January 10, 2007.

⁹/ In 2005 dollars.

Kenai LNG Facility by early 2009, resulting in a major loss in benefits to the State of Alaska. The applicants further assert that shutdown of the Kenai LNG Facility would cause a shut-in of the flowing gas supplies that would otherwise be produced from the Cook Inlet reservoirs and could result in permanent loss of natural gas reserves and deliverability. In this regard, the applicants maintain that once flowing wells are shut-in, there is no guarantee that those supplies will be available in the future at the same rate of production or that reserves will not be lost permanently. Finally, CPANGC and Marathon note the beneficial impact of the exportation of LNG on the balance of payments between the U.S. and Pacific Rim countries during the two year term of the proposed blanket authorization.

DOE/FE Evaluation

This export application will be reviewed pursuant to section 3 of the Natural Gas Act, as amended, and the authority contained in DOE Delegation Order No. 00-002.00G (Jan. 29, 2007) and DOE Redelegation Order No. 00-002.04C (Jan. 30, 2007). In reviewing LNG exports, DOE considers domestic need for the gas and any other issue determined to be appropriate, including whether the arrangement is consistent with DOE's policy of promoting competition in the marketplace by allowing commercial parties to freely negotiate their own trade arrangements. Parties that may oppose this application should comment in their responses on these issues. CPANGC and Marathon assert the proposed authorization is in the public interest. Under section 3 of the Natural Gas Act, as amended, an export from the United States to a foreign country must be authorized unless "the proposed exportation will not be consistent with the public interest." Section 3 thus creates a statutory presumption in favor of approval of this application, and parties opposing the authorization bear the burden of overcoming this presumption.

The National Environmental Policy Act (NEPA), 42 U.S.C. § 4321 et seq., requires DOE to give appropriate consideration to the environmental effects of its proposed decisions. No final decision will be issued in this proceeding until DOE has met its NEPA responsibilities.

Public Comment Procedures

In response to this notice, any person may file a protest, motion to intervene or notice of intervention, as applicable, and written comments. Any person wishing to become a party to the proceeding and to have their written comments considered as a basis for any decision on the application must file a motion to intervene or notice of intervention, as applicable. The filing of a protest with respect to the application will not serve to make the protestant a party to the proceeding, although protests and comments received from persons who are not parties will be considered in determining the appropriate action to be taken on the application. All protests, motions to intervene, notices of intervention, and written comments must meet the requirements specified by the regulations in 10 CFR part 590. Protests, motions to intervene, notices of intervention, requests for additional procedures, and written comments should be filed with the Office of Oil and Gas Global Security and Supply at the address listed above.

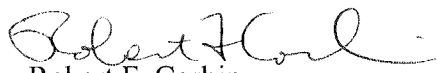
A decisional record on the application will be developed through responses to this notice by parties, including the parties' written comments and replies thereto. Additional procedures will be used as necessary to achieve a complete understanding of the facts and issues. A party seeking intervention may request that additional procedures be provided, such as additional written comments, an oral presentation, a conference, or trial-type hearing. Any request to file additional written comments should explain why they are necessary. Any request for an oral presentation should identify the substantial question of fact, law, or policy at issue, show that it is material and relevant to a decision in the proceeding, and demonstrate why an oral presentation is needed. Any

request for a conference should demonstrate why the conference would materially advance the proceeding. Any request for a trial-type hearing must show that there are factual issues genuinely in dispute that are relevant and material to a decision and that a trial-type hearing is necessary for a full and true disclosure of the facts.

If an additional procedure is scheduled, notice will be provided to all parties. If no party requests additional procedures, a final opinion and order may be issued based on the official record, including the application and responses filed by parties pursuant to this notice, in accordance with 10 CFR 590.316.

The application filed by CPANGC and Marathon is available for inspection and copying in the Office of Oil and Gas Global Security and Supply docket room, 3E-042, at the above address. The docket room is open between the hours of 8:00 a.m. and 4:30 p.m., Monday through Friday, except Federal holidays. The application is also available electronically by going to the following web address: <http://www.fe.doe.gov/programs/gasregulation/index.html>.

Issued in Washington, D.C., on March 2, 2007.



Robert F. Corbin,
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