

JONES DAY

717 TEXAS • SUITE 3300 • HOUSTON, TEXAS 77002-2712
TELEPHONE: 832.239.3939 • FACSIMILE: 832.239.3600

Direct Number: (214) 969-2920
bgkeithley@jonesday.com

JP274375:rb
665326-645016

June 26, 2007

VIA HAND DELIVERY

Office of Fuels Programs, Fossil Energy
U.S. Department of Energy
Docket Room 3F-056, FE-50
Forrestal Building
1000 Independence Ave. SW.
Washington, DC 20585



Re: FE Docket No. 07-02-LNG; ConocoPhillips Alaska Natural Gas Corporation and Marathon Oil Company; Application for Blanket Authorization To Export Liquefied Natural Gas

Dear Sirs:

Enclosed please find the original and fifteen (15) copies of the Reply Comments of Chevron U.S.A. Inc. and Union Oil Company of California for filing in the referenced docket.

Please file the above in your usual manner and return file-stamped copies of the additional documents to us via our awaiting messenger.

Do not hesitate to contact me should you have any questions.

Very truly yours,

Bradford G. Keithley / TMH

Bradford G. Keithley

Enclosures

cc: Mr. Douglas F. John (via email and hand delivery)
John & Hengerer, LP
1200 17th St., N.W., Suite 600
Washington, D.C. 20036-3013

All Known Counsel of Record (via email and first class, U.S. mail)

HUI-85151

UNITED STATES OF AMERICA
DEPARTMENT OF ENERGY
OFFICE OF FOSSIL ENERGY



In the matter of)
)
CONOCOPHILLIPS ALASKA)
NATURAL GAS CORPORATION)
and)
MARATHON OIL COMPANY)

Docket No.07-02-LNG

**REPLY COMMENTS OF
CHEVRON U.S.A. INC. AND UNION OIL COMPANY OF CALIFORNIA**

Pursuant to DOE/FE's Order of June 5, 2007, Chevron U.S.A. Inc. and its affiliate, Union Oil Company of California (together, hereinafter referred to as "Chevron"), hereby submit their Reply Comments in the above-captioned proceeding. Consistent with the Office's direction, these Reply Comments are limited to matters raised by the Answer of ConocoPhillips Alaska Natural Gas Corporation and Marathon Oil Company to Certain Motions to Intervene, Comments, Protests and/or Requests for Additional Procedures, dated May 8, 2007 ("Applicants' Answer").

**I.
PURPOSE OF CHEVRON'S REPLY COMMENTS**

In their Answer, Applicants argue that Chevron's concerns about the relationship between the application at issue in this proceeding and Chevron's ability to serve its

Southcentral Alaska customers are merely “theoretical,” and commercial in nature.¹

Applicants also assert that:

Chevron’s concerns are already protected in private dealings between Chevron and Applicants. Access to reserves and plans for development from any of the three jointly-owned fields are subject to a joint decision making process in private operating agreements. ... These operational issues are not affected by Applicants’ current LNG exports, and it is therefore hard to understand how continued exports would have any additional impact.²

Applicants are wrong on both counts. Chevron is seriously concerned that the matters at issue in this proceeding could have an affect on its ability to serve Chevron’s Southcentral Alaska customers. These concerns are not merely “theoretical,” nor are these concerns “already protected in private dealings between Chevron and Applicants.” Instead, because of the potential impact of DOE/FE’s decision on the Applicants’ future development decisions in fields co-owned with Chevron, Chevron’s ability to continue to serve its Southcentral Alaska customers may be directly and adversely affected by this proceeding.

The purpose of this Reply is to further demonstrate the critical connection between Chevron’s ability to continue to serve its Southcentral Alaska customers and the matters

¹ Applicants’ Answer at 8.

² Applicants’ Answer at 9.

at issue in this proceeding. After having sufficient time to consider the matters at issue in this docket, Chevron also states its position on the application.³

II.
CONTRARY TO APPLICANTS' ASSERTIONS,
THERE IS A DIRECT CONNECTION BETWEEN THIS PROCEEDING AND
CHEVRON'S ABILITY TO SUPPLY ITS UTILITY CUSTOMERS

As stated in its Motion to Intervene, through its affiliates Chevron is engaged in the exploration, production, and marketing of oil and gas in the Cook Inlet area of Alaska. It is one of the largest gas producers in the area and is one of the major suppliers of gas to the Southcentral region of Alaska. In particular, Chevron is a substantial supplier of natural gas to ENSTAR Natural Gas Company ("ENSTAR"), the natural gas distribution utility serving Anchorage and the surrounding region of Southcentral Alaska. Chevron also currently supplies gas to Chugach Electric Association ("Chugach"), an electric utility serving portions of Southcentral Alaska, and also sells gas to other, industrial customers of gas located in the Southcentral Alaska region.

Because of its role as a major supplier to the utilities located in Southcentral Alaska, Chevron's continuing ability to deliver gas is an important component in

³ In its Motion to Intervene Chevron made clear that it was "continuing ... to study the effect of the proposed application on it ... and, as a result, [was] unable to state a position on the proposed application at this time." Motion to Intervene at 4. In their Answer, Applicants criticized Chevron for failing to state a position. Applicants' Answer at 10 ("DOE/FE should, therefore, deny Chevron's motion to intervene in this proceeding because Chevron has failed to state or otherwise illustrate its position in this regard, as was incumbent to do in its motion to intervene."). DOE/FE has since granted Chevron's Motion to Intervene and during the intervening period Chevron has continued to review the proposed application, has reviewed the positions of the other parties in this matter, and as further discussed below, has arrived at its position in this matter.

determining the public interest of the region.⁴ Moreover, Chevron's continuing ability to deliver gas in the region is clearly a fact that the Applicants rely on significantly to support their application. In defending against positions taken by the State, ENSTAR and Chugach that the Applicants should be required to fulfill the outstanding requirements of the utilities before being authorized to export gas from the State, the Applicants emphasize that Chevron currently supplies the bulk of the gas requirements of ENSTAR and has the option to continue to do so. Applicants' Answer at 20 - 21. The clear thrust of the Applicants' argument is that they should not be required to take on the role because Chevron already is supplying a significant share of that market.

In order to continue to serve in that role, however, Chevron must continually develop additional sources of supply and deliverability. As existing wells are used to meet its customers' current requirements, the capability of the wells – and, thus, Chevron's ability to meet the peak and other needs of its customers from those wells – decline. Given the current levels of demand in the Cook Inlet, maintaining at least the current overall level of deliverability on an ongoing basis is critical to Chevron's ability to meet the peak demands of its utility customers. As a result, in order to offset the natural decline in the capability of existing wells, Chevron must continually develop new wells and supply sources to meet the ongoing demands of its utility customers.

⁴ The Applicants admit this critical fact in their Answer. Applicants' Answer at 20-21 (“... the majority of Enstar's natural gas supply is provided by Chevron ...”).

The Applicants also make a similar point about the need for ongoing development in the Cook Inlet. The Applicants' "Expected Supply Case," on which they rely extensively to support their request, hinges on the ongoing development of a substantial volume of additional supplies.⁵ While clearly not all of the additional supplies are to be developed during the proposed term of the export license, significant efforts need to continue during that period for the Expected Supply Case to be relevant to this proceeding.

In its Motion to Intervene, Chevron makes clear that, in meeting its current supply commitments, Chevron depends significantly on production from three fields in which it and the Applicants jointly hold working interests.⁶ Chevron is looking to those same fields to supply a significant share of its future deliverability as well, through the development of new wells as the supplies available from the existing wells in each field decline. Because the Applicants are co-working interest owners in the fields and the Operators of two of them, the actions of the Applicants are critical in enabling Chevron to

⁵ See, e.g., Applicants' Answer at 26 ("... the Expected Supply Case assumes that 1,050 Bcf [1.05 Tcf] of additional natural gas resources will become available in the Cook Inlet.").

⁶ Motion to Intervene at 2 ("Chevron relies entirely on production from the Cook Inlet gas producing fields in which it owns an interest to supply its Southcentral Alaska customers. Directly and through affiliates, either ConocoPhillips Alaska Natural Gas Corporation or Marathon Oil Company ... also own interests in three of the gas producing fields in which Chevron holds an interest. Production from these three jointly-owned fields constitutes a substantial portion of Chevron's Southcentral Alaska gas supply. Marathon, ConocoPhillips and Chevron each operate one of the three fields.').

achieve those objectives.⁷ Applicants do not contest either fact; indeed, they admit that the development of these critical fields is a “joint” decision.⁸ Yet, despite admitting the critical role that Chevron – and thus, the jointly owned fields – play in meeting the public interest of in-state consumers and their clear reliance on Chevron’s continued ability to justify their own desires, Applicants seek to minimize Chevron’s concerns about the potential impact of this proceeding on the Applicants’ incentives to continue to develop the fields.⁹

Chevron’s concerns cannot be minimized, however. In order for Applicants to prove that their application is in the public interest, Applicants rely on Chevron’s service to ENSTAR to demonstrate that the needs of Southcentral Alaskans are being satisfied. Applicants cannot rely on Chevron’s ability to meet those commitments to support its application in one breath, and then seek to trivialize Chevron’s concerns about Chevron’s ability to meet those commitments in another, when it is clear that Chevron’s ability to meet those obligations will be directly affected by the Applicants’ proposal here.

⁷ *Id.* (“As Operator of two of these three jointly-owned fields, the Applicants have substantial control over the rate and volume at which gas is explored for, developed and produced from the jointly owned fields. As a result, the Applicants’ decisions as Operator directly affect the production rate and volume at which Chevron is able to obtain delivery of gas from its share of such jointly owned fields. Because of the importance of these fields to Chevron’s gas supply, the decisions of the Applicants as Operator in turn directly affect the rate and volume at which Chevron is able to deliver gas to ENSTAR and Chevron’s other Southcentral Alaska customers.”)

⁸ Applicants’ Answer at 8-9 (“Access to reserves and plans for development from any of the three jointly-owned fields are subject to a *joint* decision making process ...”) (emphasis supplied).

⁹ Applicants’ Answer at 8-9.

Contrary to Applicants' assertion, Chevron's concerns about the relationship between the application at issue in this proceeding and Chevron's ability to serve its Southcentral Alaska customers are not "theoretical," and Chevron's interests are *not* "already protected in private dealings between Chevron and Applicants." Not only have Applicants already admitted that the continued development of these fields involve "joint" decisions,¹⁰ consistent with industry practice each of the relevant joint operating agreements relied on by Applicants for their argument also provide the Operator with significant discretion in the day-to-day operation of the fields and in a number of respects, control over the manner in which additional projects are undertaken. Moreover, even where the joint operating agreement may provide limitations on the Operator's discretion, practically speaking the Operator interprets the scope of the limitation in the first instance.

In that context, Chevron is concerned that the Department's decision in this proceeding may significantly affect the Applicants' conduct in the "joint" decision making process and in areas in which they are granted discretion under the relevant joint operating agreements. Importantly, denial of the application could substantially decrease the Applicants' incentive to continue to develop on a current basis the existing fields in which they and Chevron are joint owners. Because any disinterest by Applicants in continuing to develop the fields could impair Chevron's ability to develop additional

¹⁰ *See supra* note 8.

supplies from those same fields for use in meeting the needs of Chevron's in-state customers, including ENSTAR and Chugach, Chevron believes that such a decision would adversely affect the public interest.

Even approval of the application with certain conditions could have the same effect. For example, the State argues that approval should be conditioned on requiring "open access [to the LNG export plant] for third party producers."¹¹ Unless carefully and very narrowly drawn, however, such a condition potentially could result in uncertainty on the part of the Applicants about the stability and size of the market they are serving and again, create disincentives to continue development of the existing fields in which they and Chevron are joint owners. For the same reasons as noted above, this in turn could impair Chevron's ability to continue to develop additional supplies from these same fields as required to meet the demands of its Southcentral customers.

This is not to say, on the other hand, that unconditioned approval of the Applicants' request is appropriate. As noted above, the Applicants' "Expected Supply Case" depends on the ongoing development of a substantial volume of additional supplies.¹² While clearly not all of the additional supplies are to be developed during the proposed term of the export license, significant efforts need to continue during that period for the Expected Supply Case to be relevant to this proceeding. Accordingly, it would

¹¹ State of Alaska's Motion to Intervene and Request for Additional Procedures, FE Docket No. 07-02-LNG at 18 (dated April 6, 2007).

¹² See *supra* note 5.

not serve the public interest for DOE/FE to approve the requested extension and then, in implementing the extension, for the Applicants merely to draw down on their existing supply base for that purpose.

For all of these reasons, DOE/FE should carefully consider and take into account the impact of any decision it makes in this proceeding on the Applicants' incentives and commitment for continued development of the fields in which it is a co-working interest owner with Chevron. Because of the link between continued development of those fields and Chevron's continued ability to meet its commitments to the utilities serving Southcentral Alaska, ensuring that the action taken by the DOE/FE in this proceeding promotes and ensures continued development of these critical fields is important and significant to protecting the public interest.

III. CHEVRON'S POSITION

In its Motion to Intervene Chevron made clear at the time that it was continuing to study the effect of the proposed application on it and its ongoing ability to develop gas from the fields jointly owned by it and the Applicants and, as a result, was unable to state a position on the proposed application at that time. Motion to Intervene at 4. Since that time Chevron has continued to review the application, has reviewed the positions of the other parties in this matter and has arrived at its position in this matter.

As all parties note, the supply/demand balance in the Cook Inlet is tightening and, as a result, the margin for error in meeting the supply requirements of Southcentral Alaska is decreasing.¹³ In this environment, Chevron believes that it is appropriate to ensure that any extension of the Applicants' authority contributes directly to the long term wellbeing of Southcentral gas consumers, as well as Applicants' short term interest in continuing sales.

In that context, Chevron supports the application as long as the Applicants provide adequate assurances, recognized and repeated by DOE/FE as a condition of its order approving the extension, that the Applicants will support and make significant investments during the same period in the continued development of the existing Cook Inlet reserve base, including the fields that they own jointly with Chevron. Such an agreement and condition will both serve the interests identified by the Applicants, as well as provide continuing opportunities to develop the new supplies necessary to meet the ongoing needs of Southcentral utility customers.

Chevron is aware that the State has proposed its own condition directed at the same objective.¹⁴ While Chevron supports the State's objective, Chevron acknowledges

¹³ *See, e.g.*, Letter to Office of Oil and Gas Global Security and Supply from the Honorable Sarah Palin, Governor of the State of Alaska, Re: OFE Application for Blanket Authorization to Export LNG from Kenai Alaska at 2 (dated Apr. 6, 2007) ("The declining trend in the natural gas reserves and rising prices signal the basin's transformation from longstanding abundant natural gas supply to that of a tightened demand-supply gas balance.").

¹⁴ State of Alaska's Motion to Intervene and Request for Additional Procedures, FE Docket No. 07-02-LNG at 16-17 (dated April 6, 2007) (requiring that the Applicants continue to invest in projects

Applicants' concern that there are practical problems in implementing the form of condition sought by the State.¹⁵ Rather than avoid or reject such a condition entirely as a result of such practical issues, however, Chevron believes that DOE/FE as part of its review of the application should require that the Applicants provide adequate assurances that they will support and continue to make significant investments during the period that the authorization is in effect in the continued development of the existing Cook Inlet reserve base and condition any authorization on the continued implementation of those assurances. In the unlikely event that the Applicants fail to do so, appropriate enforcement actions could be brought as a result.

For the reasons noted above, Chevron believes that maintaining an ongoing development program is critical to the public interest of Southcentral Alaska consumers and is necessarily linked to the approval sought by the Applicants. DOE/FE should approve the application and, as part of the approval, should expressly condition the authorization to ensure that the Applicants support and make significant contributions to that effort.

(continued...)

that target replacement gas reserves sufficient to maintain an ongoing balance between production and reserves).

¹⁵ See Applicants' Answer at 39-41.

DATED: June 26, 2007.

Respectfully submitted,

By: *Bradford Keithley* /TMH

Marc Bond
Senior Counsel
Chevron North America
Exploration and Production
909 West 9th Avenue
Anchorage AK 99501-3322
(907) 263-7813 – telephone
(907) 263-7880 - facsimile
mbond@chevron.com

Bradford G. Keithley
Jones Day
717 Texas, Suite 3300
Houston, TX 77002
(832) 239-3939 – telephone
(832) 239-3600 – facsimile
bgkeithley@jonesday.com

ATTORNEYS FOR CHEVRON U.S.A., INC. AND
UNION OIL COMPANY OF CALIFORNIA

UNITED STATES OF AMERICA
DEPARTMENT OF ENERGY
OFFICE OF FOSSIL ENERGY

In the Matter of)
)
CONOCOPHILLIPS ALASKA)
NATURAL GAS CORPORATION)
and)
MARATHON OIL COMPANY)

Docket No. 07-02-LNG

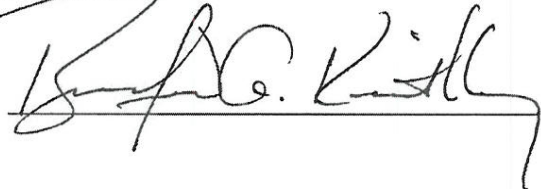
VERIFICATION

STATE OF ALASKA §
THIRD JUDICIAL DISTRICT §

Bradford G. Keithley, being first duly sworn upon his oath, states as follows:

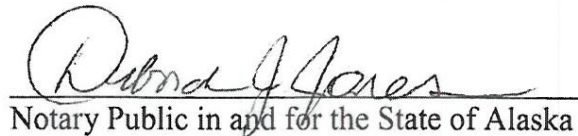
I am a partner with Jones Day, counsel for Chevron U.S.A. Inc. and Union Oil Company of California, in the above-referenced matter. I hereby certify that I have read the foregoing Reply Comments of Chevron U.S.A. Inc. and Union Oil Company of California, know the contents thereof and verify that the facts stated in it are true and correct to the best of my knowledge, information and belief.

Dated this 26th day of June, 2007.



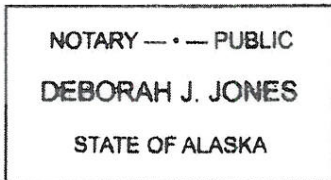
STATE OF ALASKA §
THIRD JUDICIAL DISTRICT §

SUBSCRIBED AND SWORN TO before me, the undersigned notary public, on this 26th day of June, 2007.



Notary Public in and for the State of Alaska

My Commission Expires: May 15, 2011



CERTIFICATE OF SERVICE

I hereby certify that I have this day caused true and correct copies of the foregoing document to be served via email and first class mail upon all parties listed below on this the 26th day of June 2007.

Roger Belman
ConocoPhillips Alaska Natural Gas Corp
P.O. Box 100360
Anchorage, AK 99510-0360
roger.belman@conocophillips.com

The Honorable Sarah Palin
Governor, State of Alaska
P.O. Box 110001
Juneau, Alaska 99811-0001
governor@gov.state.ak.us

J. Scott Jepsen
Vice President
ConocoPhillips Alaska Natural Gas Corp
P.O. Box 100360
Anchorage, AK 99510-0360
scott.jepsen@conocophillips.com

Talis J. Colberg, Atty General
Steve DeVries, Asst Atty General
Daniel Patrick O'Tierney, Asst Atty
General
1031 W. 4th Ave., Suite 200
Anchorage, AK 99501
Steve_DeVries@law.state.ak.us
Daniel_Patrick_O'Tierney@law.state.ak.us

Douglas F. John
John & Hengerer, LP
1200 17th St., N.W., Suite 600
Washington, D.C. 20036-3013
djohn@jhenergy.com

Jody J. Colombie
Special Assistant to the Commission
Alaska Oil & Gas Conservation
Commission
333 West 7th Ave., Suite 100
Anchorage, AK 99501
jody_colombie@admin.state.ak.us

David M. Risser
Manager, Natural Gas Marketing
Marathon Oil Company
5555 San Felipe St., Suite 2415
Houston, TX 77056
dmrissier@marathonoil.com

Alan Birnbaum, Asst Attorney General
Oil, Gas and Mining Section
Department of Law
1031 West 4th Ave., Suite 200
Anchorage, AK 99501
Alan_Birnbaum@law.state.ak.us

William Holton, Jr.
Senior Counsel
Marathon Oil Company
5555 San Felipe St., Suite 2506
Houston, TX 77056-2799
wrholton@marathonoil.com

John K. Norman, Chair
Alaska Oil & Gas Conservation
Commission
333 West Seventh Ave., Suite 100
Anchorage, AK 99501-3539
john.norman@admin.state.ak.us

John S. Decker
Andrea M. Halverson
Vinson & Elkins L.L.P.
1455 Pennsylvania Ave., NW, Suite 600
Washington, D.C. 20004
jdecker@velaw.com

Julian L. Mason III
A. William Saupe
Ashburn & Mason
1227 West Ninth Ave., Suite 200
Anchorage, AK 99501
bah@anchorlaw.com

Tom East
Regional Vice President
ENSTAR Natural Gas Company
P.O. Box 190288
Anchorage, AK 99519
tom.east@enstarnaturalgas.com

Lee Thibert
Chugach Electric Association, Inc.
P.O. Box 196300
Anchorage, AK 99519-6300
lee_thibert@chugachelectric.com

Eric Redman
Heller Ehrman LLP
701 Fifth Ave., Suite 6100
Seattle, WA 98104
eric.redman@hellerehrman.com

Robin O. Brena
Anthony S. Guerriero
David W. Wensel
Brena, Bell & Clarkson, P.C.
810 N Street, Suite 100
Anchorage, AK 99501
rbrena@brenalaw.com
aguerriero@brenalaw.com
dwensel@brenalaw.com


Barron Dowling
Associate General Counsel
Tesoro Corporation
200 Concord Plaza Dr.
San Antonio, TX 78216-6999
Bdowling@tsocorp.com

Chris Sonnichsen
Director of Alaska Operations
Agrium U.S. Inc.
P.O. Box 575
Kenai, AK 99611
csonnich@agrium.com

Douglas Smith
Mona Tandon
Van Ness Feldman, P.C.
1050 Thomas Jefferson St., NW
Washington, D.C. 20007
dws@vnf.com
mxt@vnf.com

Craig Fisher
Agrium, Inc.
13131 Lake Fraser Drive S.E.
Calgary, Alberta
Canada T2J 7E8
cfisher@agrium.com

Chris Tworek
Agrium, Inc.
13131 Lake Fraser Drive S.E.
Calgary, Alberta
Canada T2J 7E8
ctworek@agrium.com


Bradford G. Keithley
Jones Day
717 Texas, Suite 3300
Houston, TX 77002
(832) 239-3939 – telephone
(832) 239-3600 – facsimile
bgkeithley@jonesday.com

HUI-85160