

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

ANSWER OF  
CONOCOPHILLIPS ALASKA NATURAL GAS CORPORATION  
AND MARATHON OIL COMPANY  
TO MOTION OF AGRIMUM U.S. INC.

Pursuant to Section 590.302 of the Department of Energy's ("DOE") regulations,<sup>1</sup> ConocoPhillips Alaska Natural Gas Corporation ("CPANGC") and Marathon Oil Company ("Marathon") (collectively "Applicants") hereby answer the "Motion for Leave to File Supplemental Comments and Supplemental Comments of Agrium U.S. Inc." ("Motion") filed in the above-captioned proceeding on October 11, 2007.<sup>2</sup>

I.  
ANSWER

Consistent with applicable precedent, the Office of Fossil Energy ("DOE/FE") should deny Agrium U.S. Inc.'s ("Agrium") Motion.<sup>3</sup> As a threshold matter, the unauthorized supplemental comments contained in Agrium's Motion were filed outside the comment procedures established by DOE/FE for this proceeding. Moreover, Agrium's Motion adds no

<sup>1</sup> 10 C.F.R. § 590.302 (2007).

<sup>2</sup> An incomplete copy of Agrium's filing was delivered by U.S. mail to counsel for Applicants on October 15, 2007. By email of October 15, 2007, undersigned counsel requested that Agrium's counsel provide Applicants with a complete copy of the filing. Agrium's counsel provided a complete copy of the filing, including the missing page 3, by email late on October 16, 2007.

<sup>3</sup> See *Phillips Alaska Natural Gas Corp. and Marathon Oil Co.*, unpublished procedural order issued in Docket No. FE96-99-LNG (Mar. 4, 1999) (denying motion of Agrium's predecessor Union Oil Company of California for leave to submit an update to previously-filed comments).

substantive information to the record of this proceeding and should be seen for what it is: an attempt to take a gratuitous parting shot at Applicants when in fact Agrium's decision has virtually nothing to do with the instant application.

Should DOE/FE nevertheless decide to entertain Agrium's Motion, Applicants offer the following responses to certain statements in Agrium's unauthorized supplemental comments regarding the closure of the Kenai Fertilizer Plant. To begin with, Agrium's suggestion that closure of the plant, now, in 2007, is evidence of a shortage of natural gas supplies in the Cook Inlet region during the proposed 2009-2011 export period is a red herring.<sup>4</sup> In fact, the Kenai Fertilizer Plant has been partially shut down since 2005 and the decision to close the plant indefinitely was not unanticipated.<sup>5</sup> Based upon pronouncements made by Agrium prior to January 2007, the Expected Demand Case in Applicants' export application assumes 20 Bcf in demand for the Kenai Fertilizer Plant in 2007 and then no demand from 2008-2011 due to plant closure.<sup>6</sup> If anything, Agrium's announced closure of the Kenai Fertilizer Plant confirms the projections in Applicants' Expected Demand Case because the plant will be closed prior to the proposed 2009-2011 export period.

Agrium's suggestion that the plant closure is a direct and proximate result of its recent inability to secure future natural gas contracts from Cook Inlet producers is similarly misleading. Agrium states in its unauthorized supplemental comments that it has been unable to secure natural gas supplies despite the fact that it "offered producers in the region, including Applicants, what it believed to be competitive prices to obtain adequate natural gas supplies in addition to

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<sup>4</sup> "Motion for Leave to File Supplemental Comments and Supplemental Comments of Agrium U.S. Inc." at pp. 3-4 [hereinafter "Agrium Motion"].

<sup>5</sup> "An Economic Analysis of Kenai LNG Export – January 2007," Resource Decisions (dated Jan. 9, 2007) at p. 3-13.

<sup>6</sup> *Id.*

offering further incentives to encourage the development of natural gas supplies.”<sup>7</sup> Agrium’s failure to secure natural gas supplies for the Kenai Fertilizer Plant is a commercial issue, not evidence of a natural gas shortage.

In their May 8, 2007 Answer, Applicants discussed at length the extent to which past business decisions are the primary cause of Agrium’s lack of a dedicated, long-term natural gas supply.<sup>8</sup> Of particular note, in 2004, Agrium and Chevron U.S.A. Inc. (“Chevron”) entered into a settlement which resolved certain Agrium claims against Chevron. Public reports of the settlement indicate that (i) Chevron made an \$86 million payment to Agrium, and (ii) Agrium released Chevron from future long-term natural gas supply obligations.<sup>9</sup> Chevron subsequently entered into a long-term, higher priced contract to sell this natural gas to Enstar Natural Gas Company (“Enstar”) which entailed exploration commitments to develop resources for Enstar.

It is therefore disingenuous for Agrium to blame the recent indefinite closure of the Kenai LNG Facility on Applicants. Agrium’s attempt to rewrite history fails to recognize that its current situation is the result of a long string of business decisions, including its failure to offer timely, competitive offers to natural gas producers sufficient to attract investment and its decision to relinquish a long-term natural gas supply as part of a settlement with Chevron.

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<sup>7</sup> Agrium Motion at p. 3.

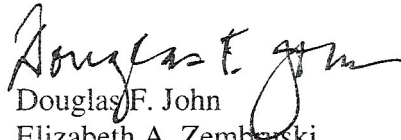
<sup>8</sup> “Answer of ConocoPhillips Alaska Natural Gas Corporation and Marathon Oil Company to Certain Motions to Intervene, Comments, Protests and/or Requests for Additional Procedures” at pp. 25-26.

<sup>9</sup> *Id.* at n. 54.

**II.**  
**CONCLUSION**

For the reasons set forth above, DOE/FE should (i) deny Agrium's motion for leave to file supplemental comments, and/or (ii) disregard Agrium's unauthorized supplemental comments.

Respectfully submitted,



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Dated: October 26, 2007.

UNITED STATES OF AMERICA  
DEPARTMENT OF ENERGY  
OFFICE OF FOSSIL ENERGY

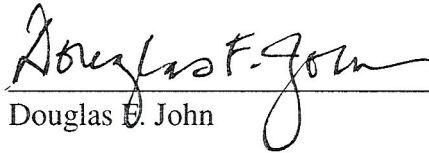
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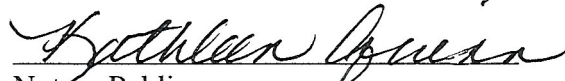
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*District of Columbia* ss: VERIFICATION

BEFORE ME, the undersigned authority, on this day personally appeared Douglas F. John, who, having been by me first duly sworn, on oath says that he is counsel for ConocoPhillips Alaska Natural Gas Corporation and Marathon Oil Company in the above-captioned proceeding. He hereby certifies that the facts stated in the forgoing instrument are true and correct to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
Douglas F. John

Subscribed and sworn to before me, a notary public, this 26th day of October, 2007.

  
\_\_\_\_\_  
Notary Public

My Commission expires:

My Commission Expires:  
April 30, 2009  
Kathleen Quinn, Notary Public  
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## CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing document upon the following individuals listed on the official service list in this proceeding by first-class mail:

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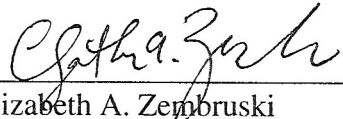
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