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February 7, 2008

VIA HAND DELIVERY

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Mr. Robert Corbin
Office of Fuels Programs, Fossil Energy
U.S. Department of Energy
Docket Room 3F-056, FE-50
Forrestal Building
Room 3E-042, FE-34
1000 Independence Ave, SW
Washington, DC 20585

Re: Comments of Chugach Electric Association, Inc., on Motion and Settlement Agreement Between Applicants and State of Alaska FE Docket No. 07-02-LNG

Dear Mr. Corbin:

Enclosed please find an original and 15 copies of Chugach Electric Association, Inc.'s Comments on Motion and Settlement Agreement Between Applicants and State of Alaska for filing in FE Docket No. 07-02-LNG. Three additional copies of the Motion are enclosed to be file-stamped and returned to the messenger.

Thank you for your attention to this matter.

Very truly yours,

Eric Redman

Eric Redman

Enclosures

cc: Service List
via first class mail and e-mail

UNITED STATES OF AMERICA
DEPARTMENT OF ENERGY
OFFICE OF FOSSIL ENERGY

In the matter of:	)	
	)	
CONOCOPHILLIPS ALASKA	)	
NATURAL GAS CORPORATION	)	
AND	)	**FE DOCKET NO. 07-02-LNG**
MARATHON OIL COMPANY	)	

<u>Comments of Chugach Electric Association, Inc., on Motion and Settlement Agreement Between Applicants and State of Alaska</u>

Chugach Electric Association, Inc. ("Chugach"), Alaska's largest electric utility, appreciates the additional time the Office of Fossil Energy ("OFE") granted Chugach and others to prepare comments in response to (1) last month's settlement agreement entered into by the State of Alaska ("State") and the Applicants ("Settlement Agreement"), and (2) the State's motion relating to the Settlement Agreement.

Chugach has used this additional time for discussions with the State, the Applicants, and other entities concerning the Settlement Agreement and the as-yet unsuccessful efforts of Chugach and the Applicants to reach agreement on new contracts for the purchase and sale of natural gas. The Settlement Agreement contains provisions that relate, indirectly, to gas supplies for Chugach during the proposed two-year liquefied natural gas ("LNG") export authorization extension period (only). Chugach needed time for these discussions and review of the Settlement Agreement because, despite the Settlement Agreement, Chugach's future gas supply needs and deliverability requirements remain unmet, and because Chugach was not involved in the negotiation and drafting of the Settlement Agreement, to which Chugach is not a party.

Having now reviewed the Settlement Agreement and participated in the discussions mentioned above, Chugach concludes that:

(1) The Settlement Agreement, despite making reference to Chugach, does not in any way assure (or, in Chugach's opinion, necessarily even improve the likelihood) that Chugach's future gas supply and deliverability needs will be met, and

(2) The Settlement Agreement therefore changes none of the factors that prompted Chugach to intervene in this proceeding and to ask that OFE not approve the Applicants' requested LNG export authorization extension until – or except with the condition that – Chugach's gas supply and deliverability needs will be met for some reasonable period of years, including but not limited to the requested extension period (2009-2011).

From Chugach's perspective, nothing has changed. Chugach continues to generate nearly fifty percent (50%) of all electric power sold by utilities in the state of Alaska. Chugach continues to depend on natural gas to meet ninety percent (90%) of its loads. Chugach's existing gas supplies still face imminent exhaustion in 2010 and 2011. Chugach still has no agreement with any producer for any gas supplies beyond those dates. The Settlement Agreement changes none of these facts.

Chugach's annual gas requirements exceed twenty-four billion cubic feet (24 BCF), and will continue to do so at least through 2013. In 2014, Chugach's annual gas requirements may drop as a result of certain wholesale power sales agreements expiring (although the purchasing utilities have not yet arranged alternative generation). Even so, beginning in 2014, Chugach's annual gas requirements will still be in the range of twelve to seventeen billion cubic feet (12-17 BCF). The Applicants propose to export to Japan many times the annual volume of Chugach's gas requirements. Yet Chugach's requirements remain unmet.

The Settlement Agreement does not address any significant portion of Chugach's gas requirements. Instead, the Settlement Agreement mentions only the relatively small volumes – less than ten billion cubic feet (10 BCF) – needed to fill in for Chugach's existing but expiring gas supply commitments during the 2010 and 2011 calendar years alone. The Settlement Agreement in no way assures that Chugach will be able to obtain even that much gas, even in those two years. Instead, the Settlement Agreement would create a potential deduction of this small amount from the authorized export volumes.

This potential deduction is evidently intended as some form of spur to incentivize the Applicants to agree to meet this relatively minor, less than 10 BCF, portion of Chugach's total needs. The incentive appears very weak. It represents, at most, a ten percent (10%) reduction in the requested authorized use of Cook Inlet natural gas for exports during the two-year period. Even without being able to export this fraction of their requested volumes, under the Settlement Agreement the Applicants would still gain authorization for some ninety percent (90%) of the export volumes they requested – even if they never reach agreement with Chugach on new gas supply contracts.

The Settlement Agreement suggests (although it does not demonstrate) that using one hundred sixteen billion cubic feet (116 BCF) of Cook Inlet natural gas for LNG exports to Asia over a two-year period is something that will help all local domestic users of Cook Inlet natural gas, including Chugach – essentially regardless of whether the Applicants continue supplying Cook Inlet natural gas to Chugach, since their doing so is not a condition of the Settlement Agreement. To articulate that argument is to expose its logical flaw. Local domestic users of Cook Inlet natural gas do not benefit from additional exports of Cook Inlet natural gas unless the local domestic users are able to secure sufficient Cook Inlet gas for their own needs.

The implicit logic of the Settlement Agreement seems somewhat at odds with the Applicant's original rationale for their request. In their initial filing, the Applicants sought to demonstrate that supplies of Cook Inlet gas during 2009-2011 will exceed local domestic needs, and that the ostensibly excess gas can therefore be exported without harm to the local populace. The Settlement Agreement, by contrast, seems based on a more complex logical syllogism: additional gas can be produced in the Cook Inlet, but this will require additional drilling, which requires additional investment, which in turn will be made only if there exists a market for the additional gas that is larger than the local market. Under this logic, the local market will benefit from the additional gas that export-driven new wells will produce. Even if this new contention is valid, however, it does not change the need (and requirement) that gas supplies for local domestic users be secured first.

Reasonable local domestic needs are either assured of being met or they are not. At the moment, they are not. If local domestic needs are not met, the export of gas that might otherwise have met local domestic needs may be helpful to the Applicants, but it is not helpful to local domestic users. The situation would of course be different if – as in the past – local domestic needs were first assured of being met, and then *additional* gas in excess of local domestic needs were proposed for export. But that is not the case today – quite the opposite.

The 116 BCF the Applicants propose to use for exports in a single two-year period is a volume approximately four (4) times as great as Chugach's *total* annual requirements for gas in each year from now through 2013. Importantly, the Applicants have not shown that the export gas, if conserved for local domestic use beyond 2011, would somehow become impossible or unduly difficult or expensive to produce after 2011. On the contrary, Applicants have specifically confined their analysis and claims to the alleged sufficiency of Cook Inlet supplies *during the two-year period only.*

The Settlement Agreement contains conditional promises by the Applicants to drill additional wells if certain pre-conditions are met. The State appears to have made this new drilling program a condition of its willingness to support additional exports. Chugach also favors additional wells being drilled – in fact, like the Applicants and the State, Chugach considers such drilling essential to help overcome the already-apparent shortage of deliverability in Cook Inlet. But the State's willingness to accept additional exports *only if new wells are drilled* makes it difficult to argue that otherwise there would already exist 116 BCF of Cook Inlet gas in excess of local domestic needs in 2009-2011, and therefore 116 BCF otherwise available for export. In this respect, the Settlement Agreement reinforces Chugach's arguments, not those of the Applicants.

Cook Inlet gas production data for 2007, only recently available publicly, also reinforces Chugach's arguments. Using figures published by the Alaska Oil & Gas Conservation Commission (which obtains its data from the Applicants and other producers), Table 1 attached hereto shows a fifteen percent (15%) decline in Cook Inlet gas production for 2007 compared with 2006, even though 2006 itself experienced a decline in production compared with 2004 and 2005. This 2007 production information was not publicly available when the Applicants filed their request for additional LNG export authority, nor was it available when Chugach and other interveners responded to the application.[1]

Obviously, Chugach is not privy to any producer information on *why* this decline occurred. But during 2007, the following (at least) were true:

- At least one major Cook Inlet natural gas purchaser (Agrium) failed to obtain gas supplies to meet its requirements, and shut down its plant. This suggests the decline was not due to any volumetric lack of local demand.
- The Applicants apparently exported less LNG than they were authorized to export. This suggests the production decline was not the result of any limitation on the Applicants' authorized export volumes.
- By far the greatest sources of the overall decline in Cook Inlet production in 2007 – accounting for nearly sixty percent (60%) of that decline – were Beluga River and North Cook Inlet ("NCI"). Applicant ConocoPhillips is the operator of both fields, a one-third working interest owner at Beluga, and the sole producer at NCI.

Taken together, the declining production data and the Settlement Agreement's emphasis on new drilling strongly suggest it is reasonable for Chugach to be concerned about the possibility of OFE authorizing additional exports – in a requested volume equal to two-thirds (2/3rds) of last year's entire Cook Inlet production, and four (4) times Chugach's total annual requirements – at a time when Chugach's own supplies of Cook

[1] The Table's data for 2004-2006 varies slightly from that available publicly from the State of Alaska's Department of Natural Resources Division of Oil & Gas (*Alaska Oil & Gas Report*, July 2007), but not in any manner material to the points made here, and not at all with respect to production at Beluga River and North Cook Inlet. There is, however, no 2007 data in the *Alaska Oil & Gas Report*, July 2007.

Inlet natural gas are nearly exhausted, and no agreements yet exist to continue providing such gas to Chugach.

In short, from Chugach's standpoint the fundamental public interest problem with the application remains. Nearly half the population of Alaska has no assurance of fuel being available to generate power to meet that half of Alaska's electric utility loads beginning just two years from now. That is not a good situation in which to approve additional exports, especially exports that depend on new drilling and not a currently available surplus.

Despite the claimed adequacy of Cook Inlet supplies and the claimed urgency of the LNG export authorization extension, there is as yet no agreement with the Applicants or other producers to meet Chugach's gas supply and deliverability needs even during the requested extension period, much less beyond. This seems illogical, and a failure of appropriate public interest concerns and priorities, if – as claimed – harm to everyone in Cook Inlet and the Inlet's entire natural gas production and delivery infrastructure would actually result from the LNG export authorization extension being denied by OFE.

In the circumstances, Chugach must stick with its original position. The OFE should either (1) not approve the export extension until these problems are resolved, or (2) condition any export authorization on the Applicants demonstrating that agreements have been reached under which Chugach's gas supply and deliverability needs will be met, not only during the requested extension period but for a reasonable period thereafter.

Chugach does not oppose – indeed, as in the past, Chugach would probably support – continued LNG exports so long as Chugach's own Cook Inlet gas supply and deliverability needs are reasonably assured of being met. Chugach continues to hope for a "win-win" outcome, and pledges its continued willingness to work cooperatively with the Applicants to achieve one.

Chugach does not ask that OFE delay its decision in this case. Nor does Chugach request that a hearing be held or that additional procedural steps be taken. Chugach will continue working with the Applicants to try to reach agreement on new Cook Inlet gas purchase and sale contracts. Chugach will promptly notify OFE if, as Chugach hopes, such efforts prove successful.

DATED this 7th day of February, 2008.

Respectfully submitted,

CHUGACH ELECTRIC ASSOCIATION, INC.

By Eric Redman th

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Attorney for Chugach Electric Association, Inc.

TABLE 1

Gas Field	2004	2005	2006	2007	Variance b/t 2006-2007	% of YoY Decline
Albert Kaloa	439,080	1,432,659	715,961	319,103	(396,858)	-1%
Beaver Creek	8,311,816	5,388,975	5,475,980	4,523,987	(951,993)	-3%
Beluga River	57,617,635	55,860,100	55,363,873	47,964,660	(7,399,213)	-26%
Deep Creek	298,938	3,737,321	2,813,124	2,772,423	(40,701)	0%
Granite Pt	44,387	79,165	-	-	-	0%
Ivan River	1,669,764	3,034,795	1,154,249	922,128	(232,121)	-1%
Kasilof	-	-	864,546	1,739,053	874,507	3%
Kenai	10,560,454	21,462,411	22,428,897	21,750,193	(678,704)	-2%
Kenai C.L.U	27,296,707	13,472,536	11,517,219	9,255,186	(2,262,033)	-8%
Kustatan	-	42,388	232,656	45,311	(187,345)	-1%
Lewis River	369,191	321,679	17,698	-	(17,698)	0%
Lone Creek	1,783,141	1,014,776	1,387,702	648,294	(739,408)	-3%
McArthur River	32,773,113	29,331,453	24,219,997	20,360,883	(3,859,114)	-14%
Middle Ground Shoal	-	774	4,680	7,889	3,209	0%
Moquawkie	764,752	920,440	766,721	440,624	(326,097)	-1%
Nicolai Creek	982,752	187,641	539,005	517,518	(21,487)	0%
Ninilchik	9,438,610	14,251,703	17,655,470	18,266,862	611,392	2%
North Cook Inlet	41,012,343	45,559,962	38,155,415	28,771,107	(9,384,308)	-33%
Pretty Creek	658,034	411,007	15,549	201,903	186,354	1%
Sterling	299,742	1,873,790	2,203,902	1,772,831	(431,071)	-2%
Stump Lake	-	-	238,850	-	(238,850)	-1%
Swanson River	4,191,188	4,878,675	2,922,375	2,401,857	(520,518)	-2%
Three Mile Creek	-	454,544	625,829	390,741	(235,088)	-1%
Trading Bay	27,431	413,785	11,943	6,585	(5,358)	0%
W. Foreland	986,389	2,615,254	3,350,173	1,726,569	(1,623,604)	-6%
W. Fork	-	285,989	639,170	399,697	(239,473)	-1%
Wolf Lake	73,383	93,135	582	801	219	0%
Other	2,930,427					
Total Annual CI Production	202,529,277	207,124,957	193,321,566	165,206,205	(28,115,361)	-100%
YoY production % change	not calculated	2%	-7%	-15%		

Source of Data: www.aogcc.alaska.gov/production/pindex.shtml

UNITED STATES OF AMERICA
DEPARTMENT OF ENERGY
OFFICE OF FOSSIL ENERGY

In the matter of:	)	
	)	
CONOCO PHILLIPS ALASKA	)	
NATURAL GAS CORPORATION	)	
AND	)	**FE DOCKET NO. 07-02-LNG**
MARATHON OIL COMPANY	)	

VERIFICATION AND CERTIFICATE OF REPRESENTATION

Eric Redman, being first duly sworn, on oath states, pursuant to 10 C.F.R. § 590.103(b), that he is an attorney at the firm of Heller Ehrman, LLP; that he is an authorized representative of Chugach Electric Association, Inc. ("Chugach"); that he prepared the Comments of Chugach Electric Association, Inc., on the Settlement Agreement between the State of Alaska, Marathon Oil Co. and ConocoPhillips USA in the above-referenced proceeding; and that all matters of fact stated therein are true and correct to the best of his knowledge, information and belief.

Eric Redman

SUBSCRIBED AND SWORN to before me this 6th day of February, 2008.

Lauree A. Lingenbrink
Notary public in and for the State of Washington.
My commission expires: 4-20-09

LAUREE A. LINGENBRINK
STATE OF WASHINGTON
NOTARY — • — PUBLIC
MY COMMISSION EXPIRES 04-20-09

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was served by regular mail and by e-mail upon the individuals listed below:

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Dated at Washington, D. C., this 7th day of February, 2008.

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