

ORIGINAL

UNITED STATES OF AMERICA
BEFORE THE
DEPARTMENT OF ENERGY
OFFICE OF FOSSIL ENERGY



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

FE Docket No. 07-02-LNG

MOTION OF ENSTAR NATURAL GAS COMPANY
FOR LEAVE TO REPLY AND REPLY

Pursuant to Section 302 of the regulations of the Department of Energy (“DOE”),¹ ENSTAR Natural Gas Company (“ENSTAR”) hereby requests leave to reply, and replies, to the Comments of Chugach Electric Association, Inc. (“Chugach”), which were filed on May 8, 2008, in this proceeding.² Although ENSTAR is reluctant to respond to Chugach’s intemperate pleading, the Chugach Comments contain a number of untrue and counterproductive allegations about ENSTAR that require a response on the record. This reply will aid the DOE’s consideration of whether any further action is necessary or appropriate in response to ENSTAR’s April 10, 2008 Letter to the Office of Fossil Energy (“April 10 Letter”).

I. Reply.

A. Sometimes a mistake is just a mistake.

In its own comments filed on May 8, 2008, ENSTAR has already acknowledged its mistake and explained that its failure to file and serve the April 10 Letter in accordance with the DOE’s regulations was a regrettable but unintentional error. Chugach, on the other hand, has

¹ 10 C.F.R. § 590.302 (2007).

² Comments of Chugach Electric Association, Inc. (“Chugach”) on ENSTAR Natural Gas Company’s Letter of April 10, 2008 to the Office of Fossil Energy, FE Docket No. 07-02-LNG (May 8, 2008) (“Chugach Comments”).

pronounced ENSTAR guilty of intentional misconduct, stating that it “cannot believe this error was innocent” and calling the letter “a crude effort at manipulation.” Chugach imagines a sinister conspiracy in which ENSTAR agreed to engage in prohibited, *ex parte* communications on behalf of the Applicants in exchange for gas.³ Such conspiracy theories are the stuff of Hollywood movies. Michael Clayton would be proud.

Chugach’s “conspiracy to commit *ex parte* communication” is preposterous and insulting. Chugach would have the DOE believe that, in furtherance of the conspiracy, ENSTAR sent courtesy copies of the secret communication to the Alaska congressional delegation, Governor Palin, the Deputy Director of the Alaska Department of Natural Resources, and the entire state legislature, irrespective of whether these officials agree with ENSTAR’s position. Perhaps anticipating the difficulty with this part of its theory, Chugach asserts that ENSTAR provided copies to the public officials as a means to intimidate the DOE.⁴ Chugach never explains, however, how filing the April 10 Letter *ex parte* would result in greater intimidation than filing in the public record. Of course, the explanation is immaterial. No reasonable person believes that copying public officials on a letter, whether publicly filed or not, can intimidate the DOE. ENSTAR provided copies of the April 10 Letter to the public officials because, as discussed below, the State’s public officials were aware of the contingency in the new gas supply contracts. ENSTAR wished to keep them apprised of ENSTAR’s efforts to remove the contingency.

³ Chugach devotes of significant portion of its comments to accusing the Applicants of having prior knowledge of the April 10 Letter. Whether the Applicants had prior knowledge of the content of the letter is irrelevant because there is nothing improper about the content of the letter. In order for the Applicants to fit within Chugach’s conspiracy theory, the Applicants must have urged ENSTAR to file the April 10 Letter *ex parte*. The Applicants did no such thing. The errors regarding filing and service were entirely ENSTAR’s.

⁴ Chugach Comments at 4 (“the evident intent of ENSTAR’s letter was for OFE to take a good look at the list of public officials ENSTAR copied on the letter – and for those public officials to take a good look at OFE”).

Chugach further insinuates that the April 10 Letter was filed *ex parte* to delay revealing secret facts about the new gas supply contract “for as long as possible.”⁵ Chugach says, “In the letter, ENSTAR revealed (to those who received it) that ENSTAR’s new gas supply contracts with the Applicants required, in order to be fully effective, that OFE approve the Application.”⁶ Chugach fails to mention that the contingency in the gas supply contracts was known to the public—and to Chugach—well before April 10. ENSTAR testified before the Alaska Senate Resources Committee regarding the contracts on March 12, 2008. Suzanne Gibson, a vice president of Chugach in charge of gas purchasing was in attendance. Slide 8 of ENSTAR’s presentation, which is attached hereto as Exhibit A, clearly states that the Applicants’ supply commitments are subject to the DOE’s approval of the export application. ENSTAR had no reason to hide the contingency. As explained below, ENSTAR has agreed with the Applicants since the commencement of this proceeding that the continued operation of the Kenai LNG Facility provides operational benefits that assist ENSTAR in meeting the needs of its customers.

Chugach’s conspiracy theory can be summarized as follows: ENSTAR agreed with the Applicants to conduct an *ex parte* communication with the DOE about a publicly known fact through a widely disseminated letter in an attempt to intimidate the DOE. The truth is much less exciting. ENSTAR personnel who were unfamiliar with the DOE forgot to consult with counsel before sending the April 10 Letter. They assumed that a letter sent to the appropriate office with a reference to the docket would be placed in the docket and made available to all parties. It was a mistake, nothing more.⁷

⁵ Chugach Comments at 3.

⁶ Chugach Comments at 4-5.

⁷ Chugach has recently had its own experience erroneously filing documents, ironically in a proceeding before the Regulatory Commission of Alaska to consider the new gas supply agreements. Chugach subsequently blamed its mistake on an “administrative error.” See Exhibit B.

B. ENSTAR has not changed its position.

The Chugach Comments are not limited to bluster about an imagined conspiracy to commit *ex parte* contact. Chugach also asserts that ENSTAR, along with the State, essentially sold its position in this proceeding in exchange for the gas supply contracts. This allegation is plainly false. ENSTAR has consistently maintained that the continued operation of the Kenai LNG Facility plays an important role in addressing the short-term and long-term gas supply needs of the community. ENSTAR's initial comments in this proceeding stated:

ENSTAR generally agrees with the Applicants that continued operation of the Kenai LNG Facility would provide certain benefits to the regional community. . . . To meet the community's winter peaking needs, it has occasionally been necessary to curtail deliveries to the Kenai LNG Facility. If the plant were shutdown, that source of peaking gas would no longer be available. As the Applicants assert, it is also possible that shutting in the gas fields that supply the plant could reduce their ultimate reservoir productivity. Keeping the Kenai LNG Facility in operation potentially has the additional benefits of increasing exploration incentives in Cook Inlet and improving the economics of a spur line to South Central Alaska from the proposed Alaska Natural Gas Pipeline to the Lower 48. As an 'anchor tenant,' the Kenai LNG Facility could help pay the substantial capital costs of a spur line and thereby help reduce gas transmission costs for Alaskan utilities and their customers.⁸

Notwithstanding these benefits, ENSTAR initially was concerned that granting the authorization unconditionally without having a plan to meet the needs of the community could result in supply shortfalls. ENSTAR sought a commitment from the Applicants to make the necessary investments in reserves development and deliverability to address potential shortfalls. Subsequent to filing its initial comments, ENSTAR has reached agreements with the Applicants, as has the State. As a result of these agreements, ENSTAR is now satisfied that regional needs

⁸ Motion to Intervene and Initial Comments of ENSTAR Natural Gas Company, FE Docket No. 07-02-LNG, p. 2 (Apr. 9, 2007).

will be met during the export period and thus supports the requested authorization.

II. Conclusion.

While the Applicants, the State, and ENSTAR have worked cooperatively to address the gas supply needs of South Central Alaska, Chugach has chosen to file an incendiary pleading based on imagined conspiracies. The anger apparent in the Chugach Comments undoubtedly stems from Chugach's failure to reach its own accord with the Applicants. Chugach's counterproductive approach does a disservice to its customers and the community at large. The DOE should not indulge Chugach's petulance by ordering proceedings regarding the April 10 Letter. Instead, the DOE should approve the requested export authorization as expeditiously as possible.

Respectfully submitted,



John S. Decker
Andrea M. Halverson
Vinson & Elkins L.L.P.
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Julian L. Mason III
A. William Saupe
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Anchorage, AK 99501
Attorneys for ENSTAR Natural Gas Company

Dated: May 19, 2008

EXHIBIT A

Alaska State Senate Resources Committee

Presentation by:

Gene Dubai

SVP & COO, Continental Energy Systems

Colleen Starring

Regional Vice President, ENSTAR Natural Gas

Curtis Thayer

Director, Corporate & External Affairs, ENSTAR Natural Gas

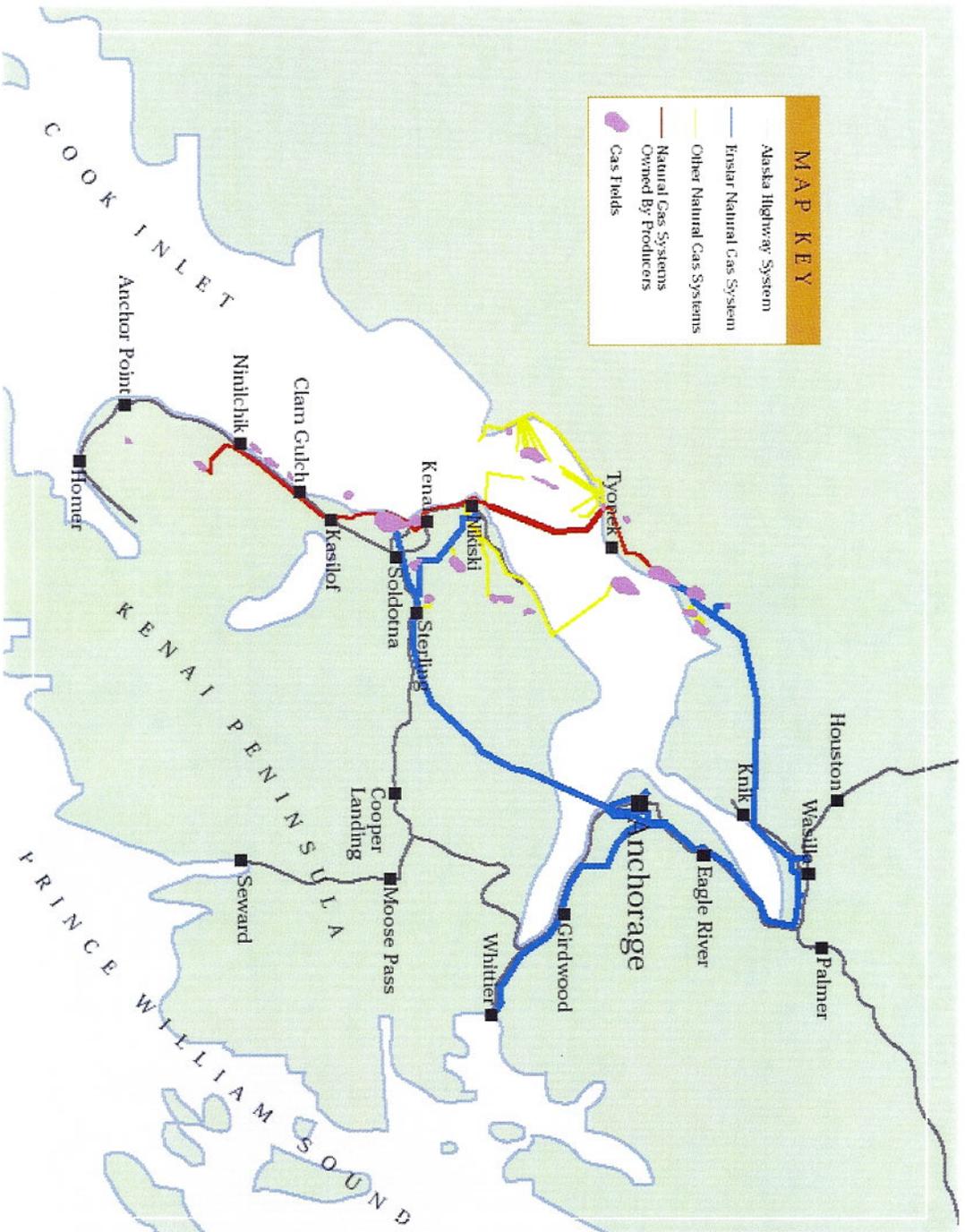
March 12, 2008

ENSTAR Facts

- Established 1961
- Number of Meters – **128,000+**
- Number of Alaskans Served* - **345,600**
- Miles of Distribution and Transmission Mains – **3,000+**
- Direct Impact on Alaska's Economy - **\$306 mil**
- ENSTAR Employees – **174 (+60 - 80 seasonal temp)**
- Rank among Alaskan energy Utilities – **1**
- New Customers in 2007 – **2,376**

* 128,000 Meters x 2.7 Alaskan Consumers per Meter

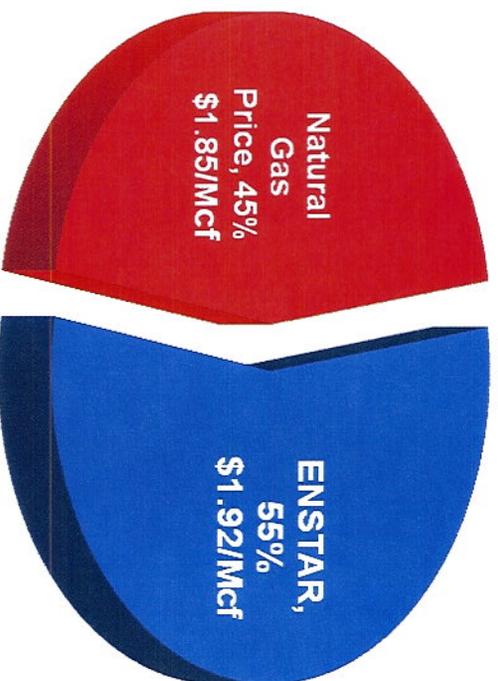
South-Central Gas Distribution



Cost Comparison Percentage of Annual Bill

Cost Comparisons 1998

Average Bill = \$3.77/Mcf

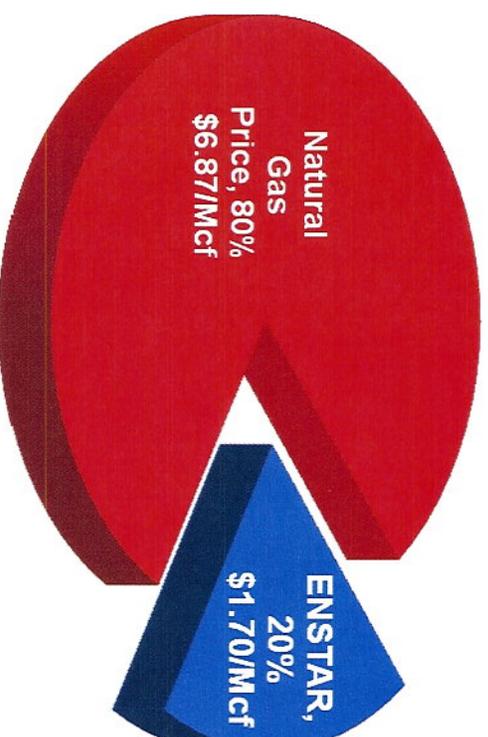


* Average Consumption per household in 1998 = 179 Mcf

* Average Annual Bill = \$675.00 (\$56.25/month)

Cost Comparisons 2008

Average Bill = \$8.57/Mcf

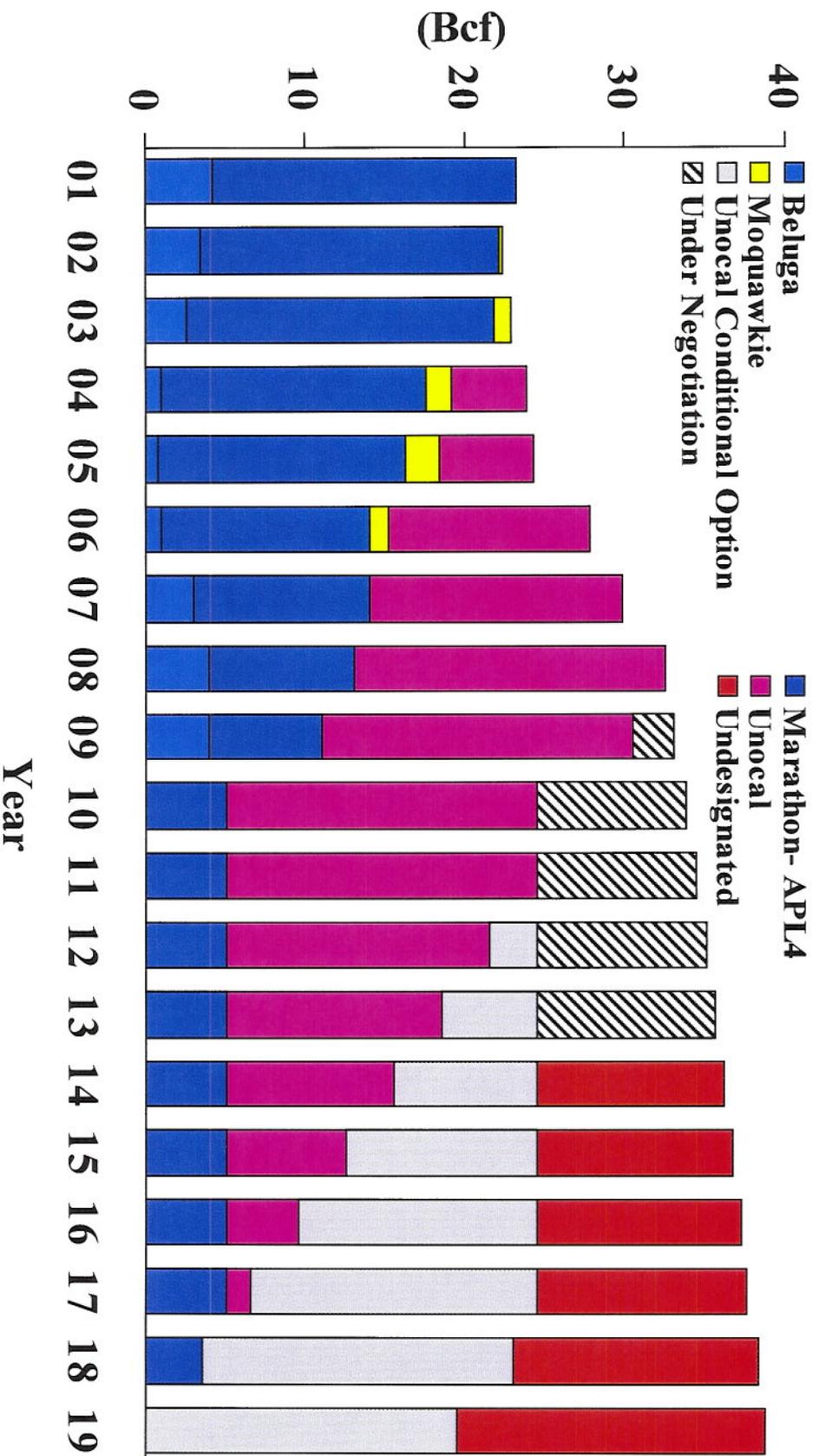


* Average Consumption per household in 2007 = 173 Mcf

* Average Annual Bill = \$1483.00 (\$124.00/month)

Gas Supply

January 2008 Outlook



Three Driving Principles:

1. *Assure a safe reliable supply of natural gas for our customers.*
2. *Achieve the lowest price possible for our customers.*
3. *Continue encouraging exploration, thereby increasing the natural gas reserves.*

Gas Supply Contract Timeline

- February 2007: ENSTAR solicited gas through RFP
- March 2007: Producers respond
- March 2007 - Present: Negotiations (supply & gas storage)
- December 2007: Term Sheets signed with both suppliers
- Mid-March 2008: Target to submit for Regulatory approval
- March - Oct. 2008: Regulatory process
- January 1, 2009: 2.1 Bcf shortfall if contracts not approved

Gas Supply Contracts

- Supply Commitment subject to U.S. DOE approval of LNG export authorization
- ENSTAR to develop gas storage 2011
- Pricing structure
 - Base Load Gas
 - Seasonal Gas
 - Needle Peak Gas
- ENSTAR will work with producers for DNR acceptance of price to be paid as value of the State's royalty share
- ENSTAR target for RCA approval: **October 2008**

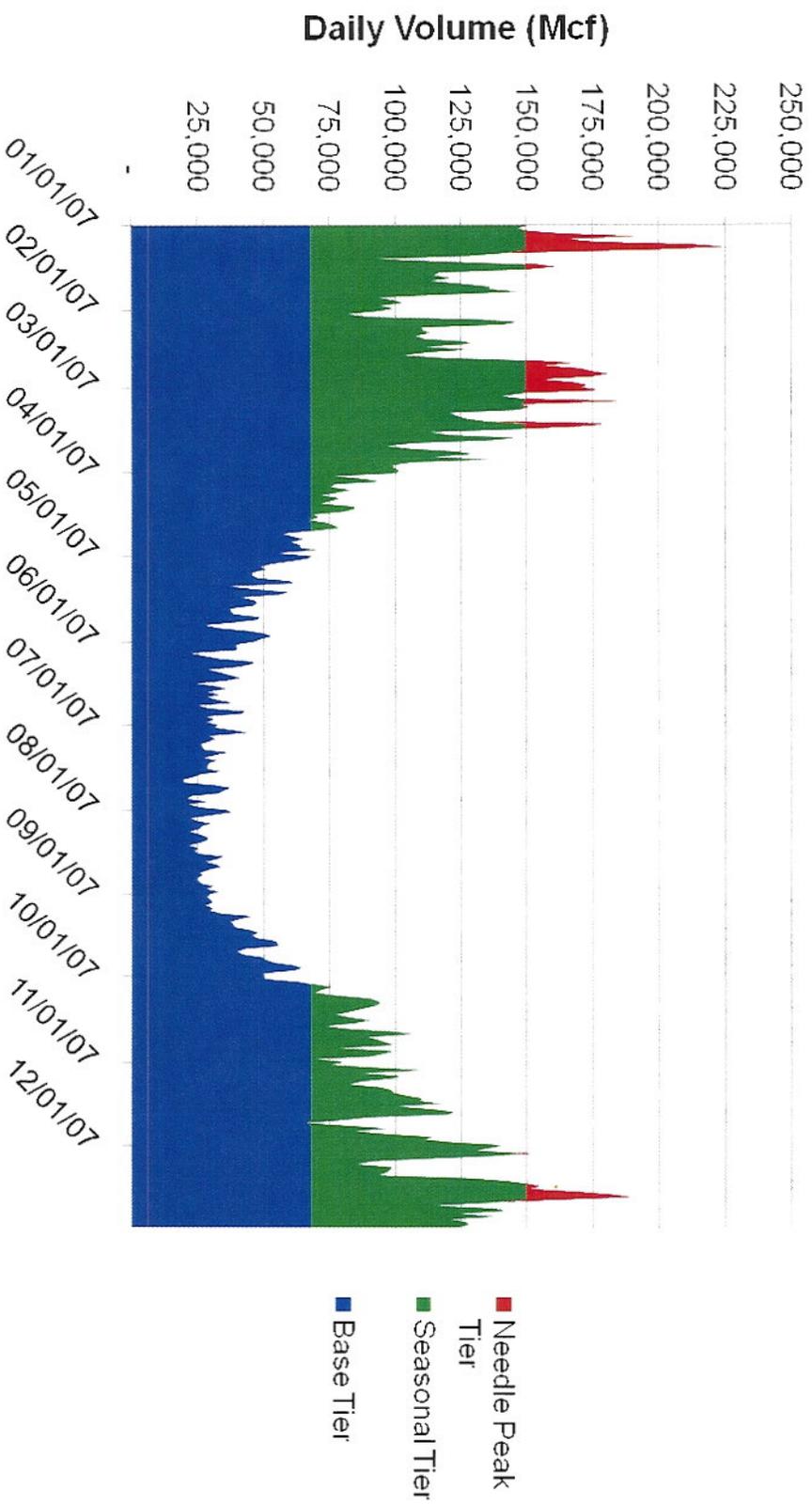
Gas Supply Contracts



Two Contracts

- Terms: 2009 - 2013
- Total Volume Commitment (combined) = 37.6 Bcf
- Energy price is a composite index comprised of multiple pricing points

Tier Pricing Structure



Portfolio Volume Summary

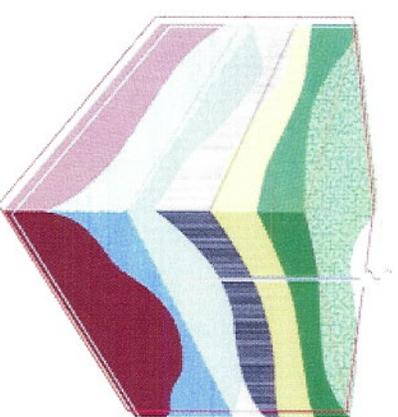
Description	2009	2010	2011	2012	2013
Total Forecast	32.2 Bcf	33.0 Bcf	33.8 Bcf	34.5 Bcf	35.2 Bcf
Unmet	2.1 Bcf	8.5 Bcf	9.3 Bcf	10.0 Bcf	10.7 Bcf
Contract Tentative	2.1 Bcf	8.5 Bcf	8.68 Bcf	8.8 Bcf	9.4 Bcf
Storage	0	0	.63 Bcf	1.2 Bcf	1.3 Bcf

Gas Storage Options

- ▮ Acquire and develop in-field storage reservoir
 - \$50 Million
- ▮ Construct a North Cook Inlet peak shaving plant
 - \$175 – 200 Million
- ▮ Continued export of LNG from existing Kenai plant and add peak shaving for ENSTAR
 - \$5 Million (equipment cost only)
- ▮ Use existing Kenai LNG plant if LNG export ceases
 - To be negotiated with owners of plant

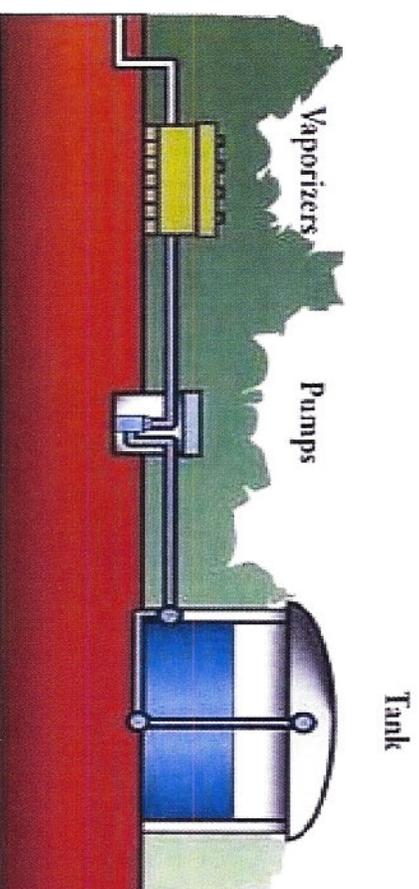
Develop In-field Storage

- ❖ Storage gas needed for seasonal swings in existing underground reservoirs
- ❖ Deliverability rate increases with amount of pad gas
- ❖ Potential to supplement deliverability with LNG vaporized from Kenai plant while LNG export continues
- ❖ Regulatory approval
- ❖ New cost to consumer
- ❖ Services currently provided by producer shifts to ENSTAR in 2011



Build Peak Shaving Plant in North Cook Inlet

- ❖ Currently on critical path for front end work to construct and begin filling by spring 2011
- ❖ Highest risk regarding time to construct
- ❖ Most expensive option on a per-Mcf basis



Producers Continue to Export LNG from Kenai Plant & Provide Peak Shaving to ENSTAR

- ▶ Contingent on DOE authorization for LNG export through 2011 and thereafter
- ▶ Minimal capital and operating expense to add 50 MMscfd of LNG vaporization



- ▶ LNG export if approved for March 2009 – 2011
 - Exporting 99 Bcf over two years
 - Plant can be diverted to Utility needs
 - LNG available for re-gasification
 - 300 MMcf of LNG available in tanks after tanker is filled

Peak Shaving via Kenai Plant if LNG Export Ceases

- ❑ 2.25 bcf of LNG storage
- ❑ Modify for LNG vaporization and add compression
- ❑ Option 1 – Producers continue to own and operate
- ❑ Option 2 - ENSTAR purchases facility
 - Regulatory/grandfather issues to investigate
 - Costs involved with purchase:
 - Environmental
 - Age of equipment
 - Timing on discontinued export
 - Partner w/utilities for cost-effectiveness



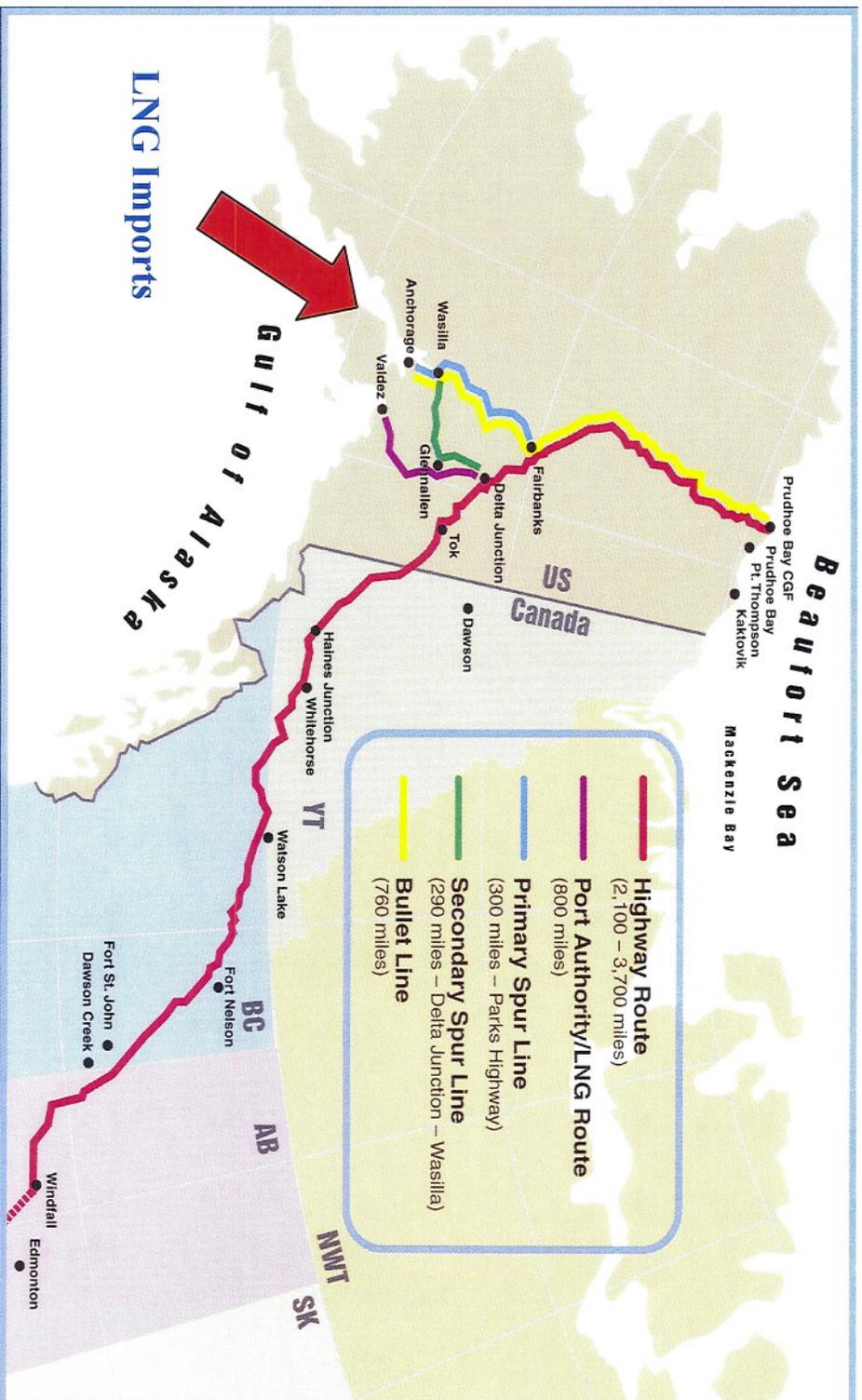
Future Production & Supply

- Contracting with existing Cook Inlet producers
 - Additional re-license required for exportation after Q1 2011
 - Driver for future volumes to ENSTAR may be under similar circumstances
- New Production
 - Armstrong North Fork
 - Nenana Basin
 - Foothills
- Development of a Bullet Line
 - Serve Alaska's needs
 - Provide long-term economic viability, stability, and growth
 - Energy solution for Fairbanks customers
 - LNG export continued
 - Now is the right time: 5-year contracts, 5 years to secure long-term stable supply

Market Outlook

- We have moved from a market of excess deliverability to an environment where deliverability does not meet demand
 - Cost of natural gas increases
 - More supply contracts needed; smaller volumes
 - Pipeline system more complicated to operate
- Higher energy costs are not good for Utilities
 - Commodity costs are a pass-through with no additional profit for the Utility
 - Consumers use less
 - Slower payments and higher bad debt
 - Consumer satisfaction decreases
 - Increased theft of service
- New Rate designs are needed that will allow a utility to encourage conservation
 - A rate structure that encourages conservation is good public policy

Natural Gas Options for South Central Alaska



Bullet Line Project



Foothills/Prudhoe Bay to Anchorage

- ~660 miles
- \$3.3 Billion
- TAPS/Parks Highway Route
- North Slope: 35+ TCF
- Foothills: 7 - 13 TCF (Estimated)
- Nenana Basin: 3 - 5 TCF (Estimated)



Opportunities/Benefits:

- Provide for Alaska's long term needs
- Create value-added products in Alaska
- Economic growth & stability

Accessible In-State Market

- ▶ ENSTAR
- ▶ Chugach / ML&P
- ▶ LNG
- ▶ Fairbanks Natural Gas
- ▶ Agrium
- ▶ Fairbanks Power
- ▶ Power Generating Fuel Switching

Advantages of ENSTAR Bullet Line

- Timing (sooner rather than later)
- Alaska's control over own destiny
- Long-term supply solution for South-Central Alaska
- Not mutually exclusive with pipeline to Lower 48
- Could revive Agrium plant
- Could extend life of Kenai LNG plant
- Could create opportunities for gas-based industrial growth
- In-state markets qualify for lower tax burdens under Alaska's ACES
- Achieves stable end-user pricing for South-Central Alaska
- Ensures sufficient wellhead prices for exploration & development

What is ENSTAR doing?

- ▶ Partnering with ASRC, Agrium, Anadarko, Armstrong, CIRI, Chevron, Chugach Electric, Conoco Phillips, Doyon, ML&P, Marathon, and Michael Baker Engineering.
- ▶ Analyzing the optimum mix of energy supply options to ensure continued economic growth in Alaska
- ▶ Develop gas storage facilities in South Central Alaska
- ▶ Provide a detailed conceptual analysis to define the cost and benefits of a bullet pipeline to South Central Alaska

Thank You!

Please visit us online for more information:

www.enstarnaturalgas.com

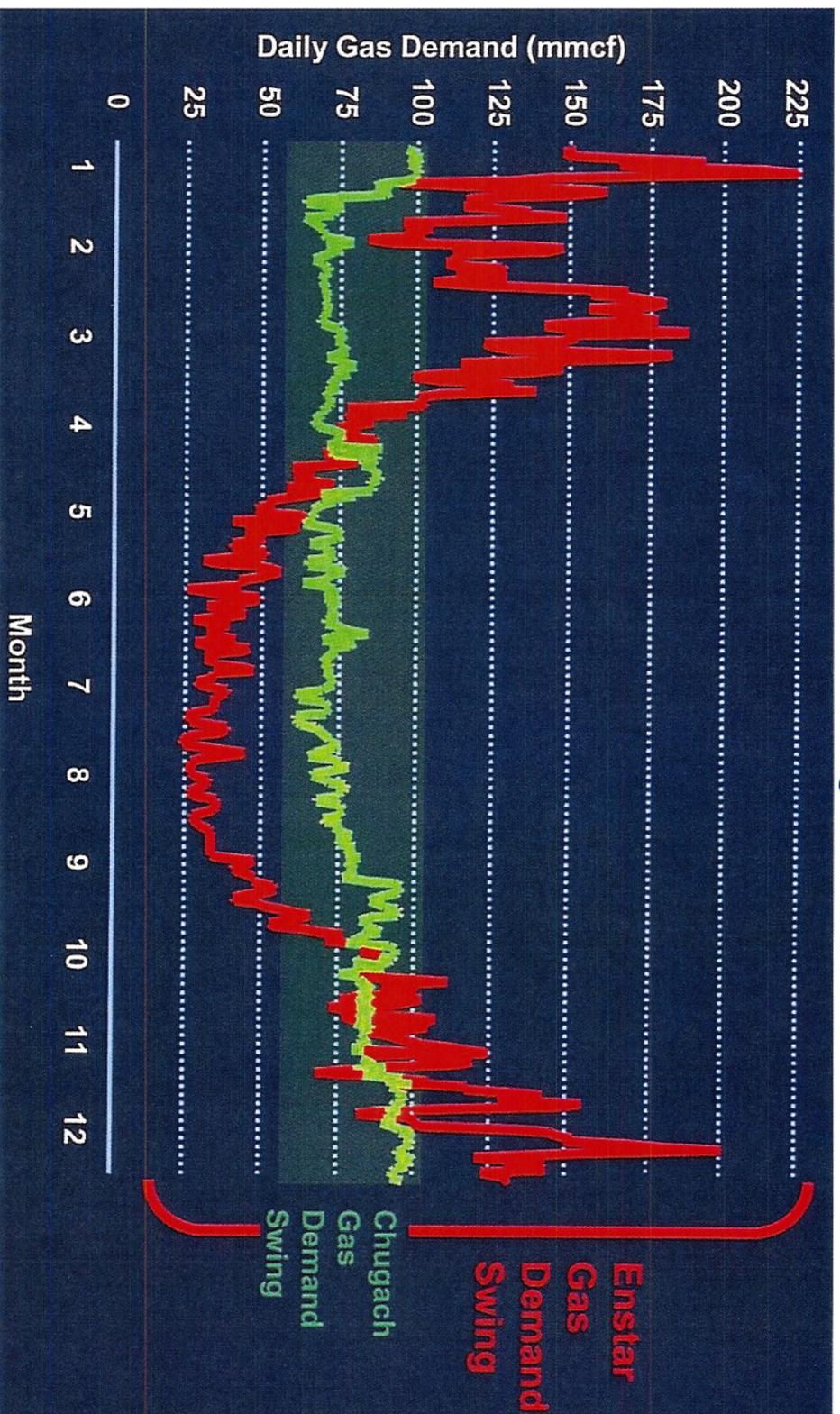


*All Our **Energy** Goes Into Our Customers*

Appendix

Daily Gas Usage 2007

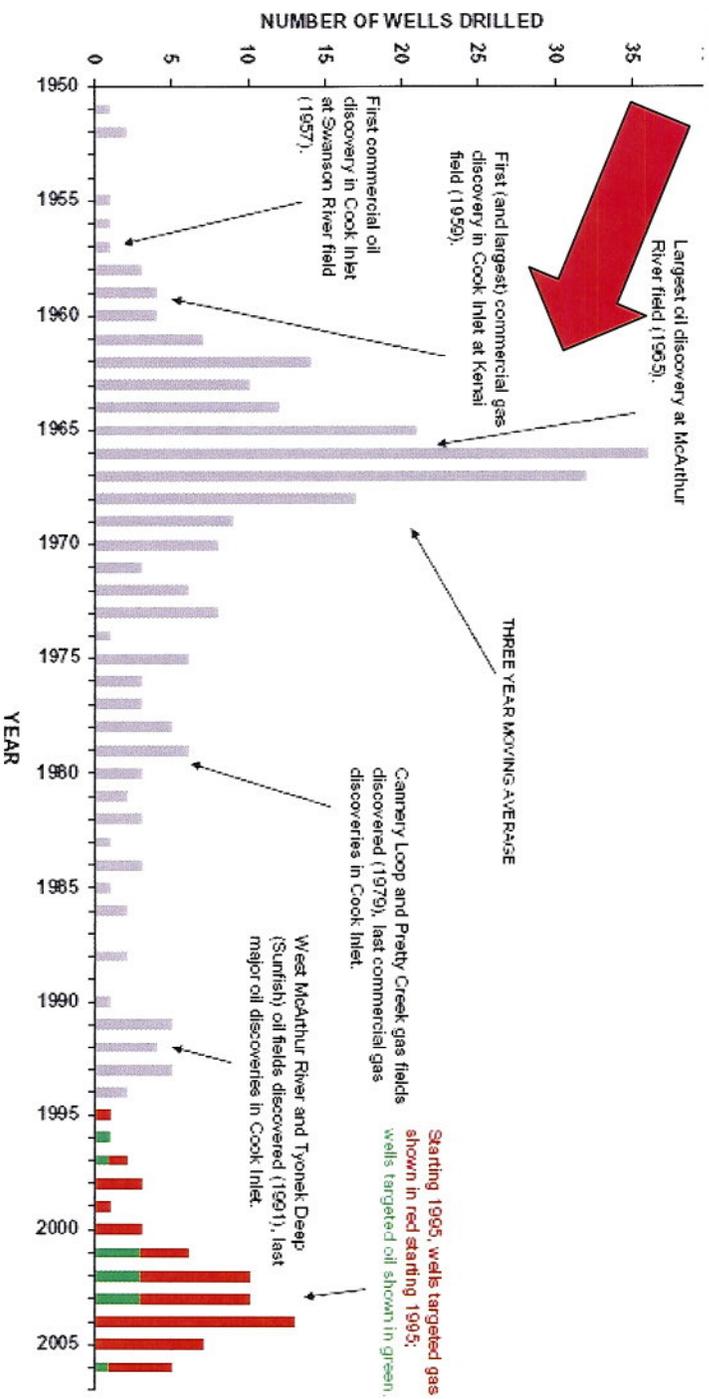
ENSTAR vs. Chugach Electric



Source: Chugach Electric

Cook Inlet Exploration Wells Drilled, 1950 - 2006

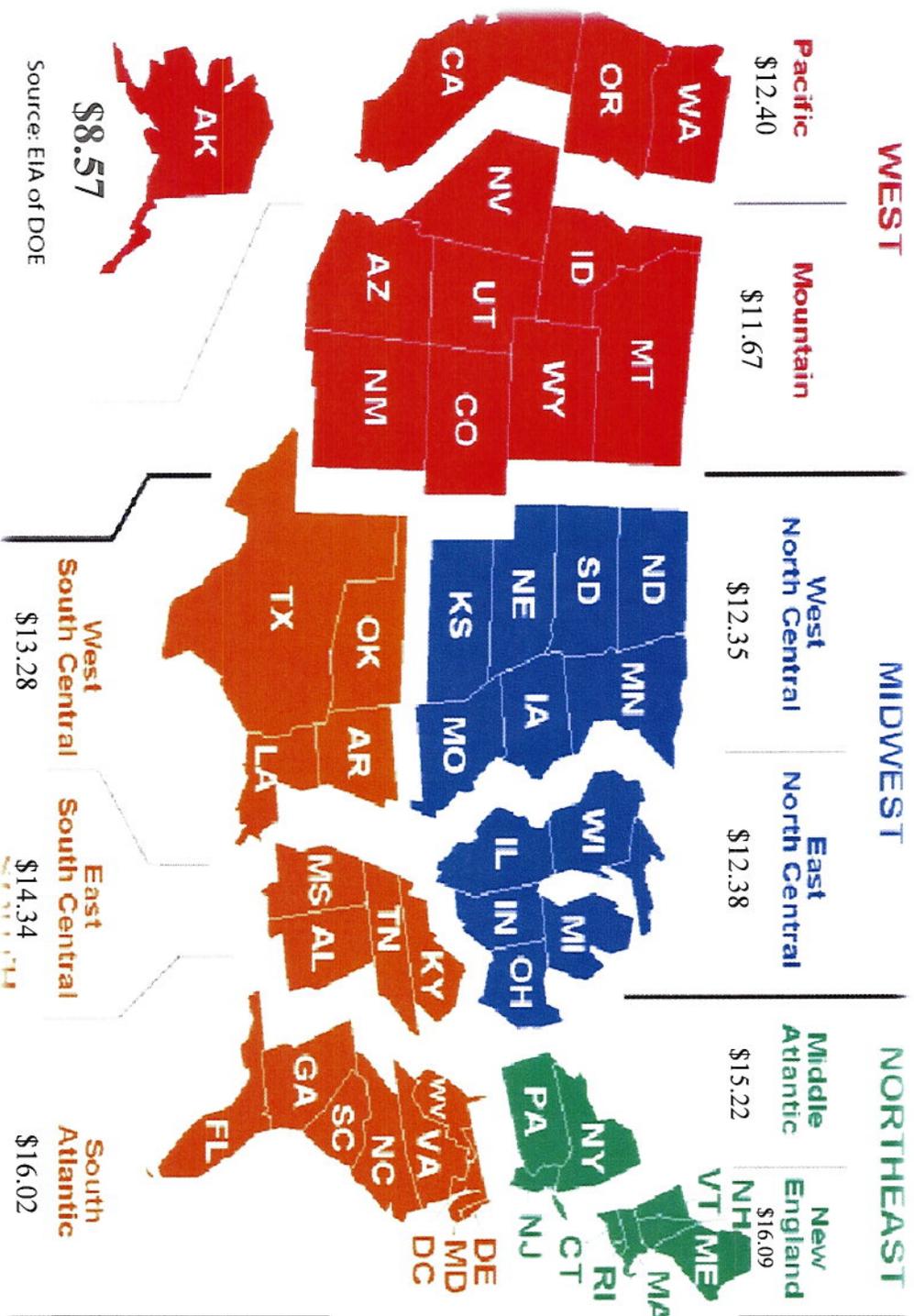
By-product of Oil Exploration



Source: Division of Oil & Gas, Feb. 2007 Report

Residential Costs by Region

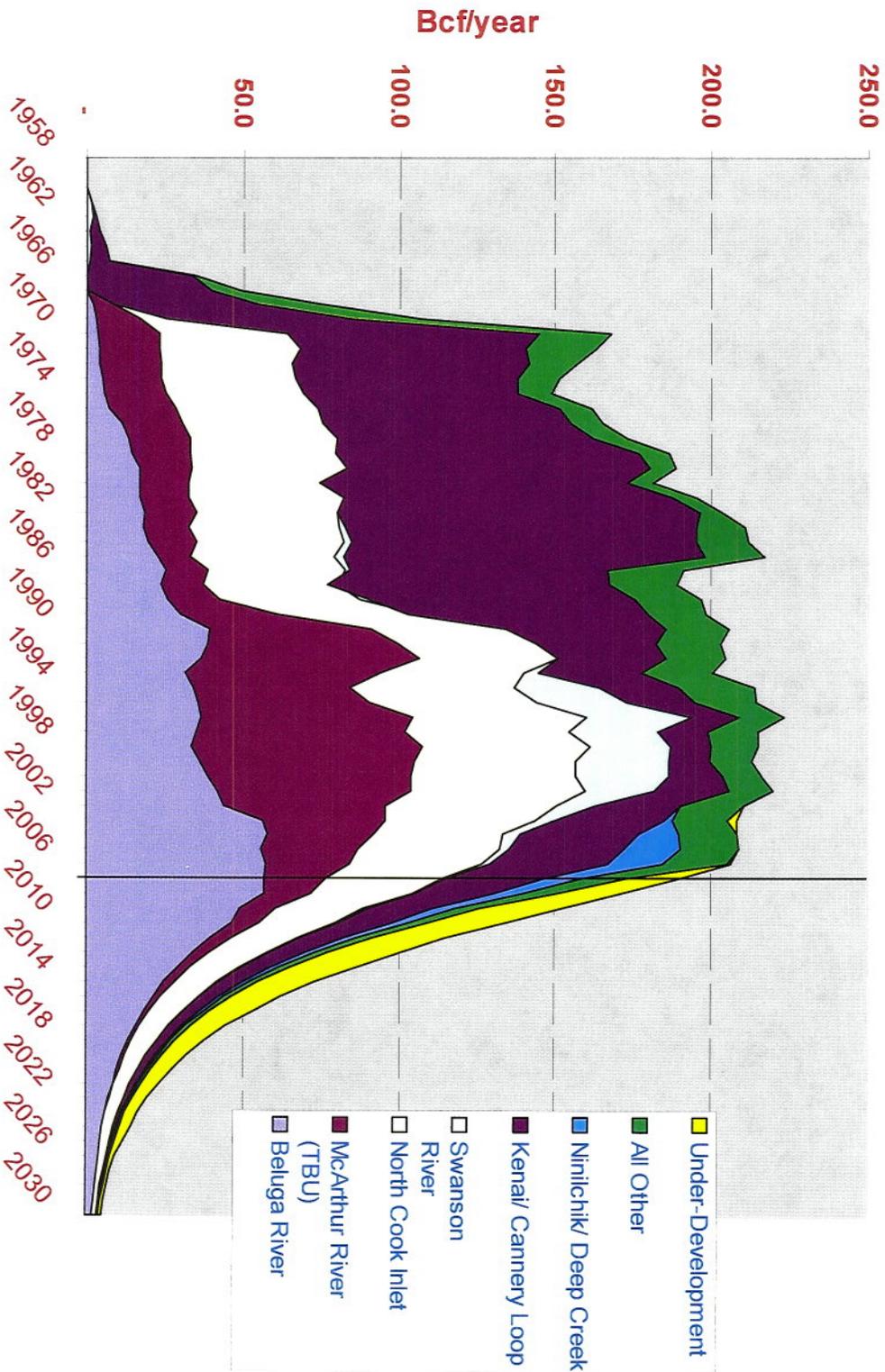
Natural Gas Cost (\$/Mcf)
Projected 2008



Source: EIA of DOE

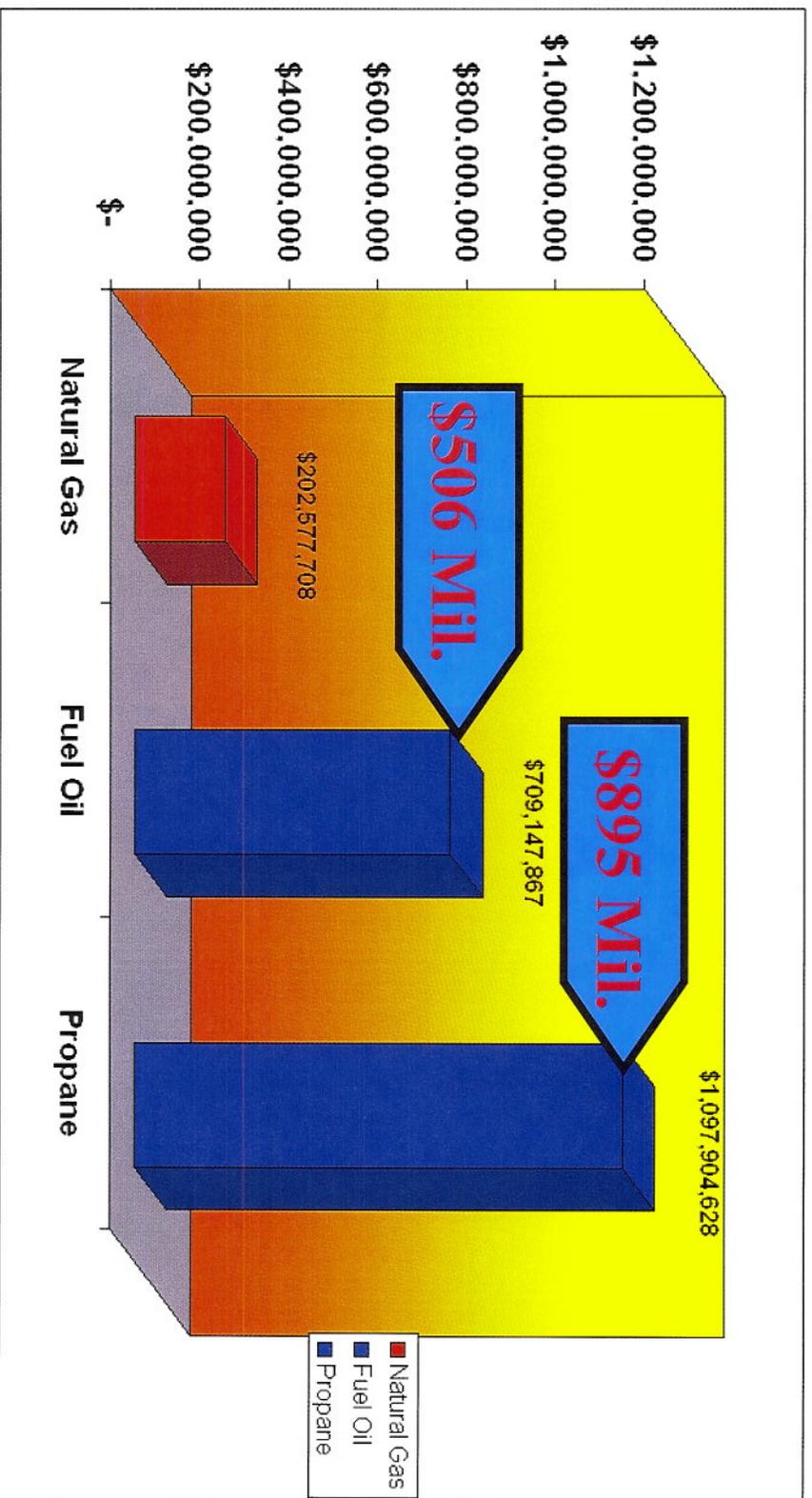
Historic & Projected Natural Gas Production (Bcf/Year)

Source: Division of Oil & Gas Report 2006



Cost to Consumer

Switching to Alternative Fuels in South Central Alaska
(2006 costs)



Current Natural Gas Contracts

- Unocal contract (62% of gas supply) is based off of a discounted, three-year average of Henry Hub*.
 - This contract was initiated in 2000.
- Marathon contract (28% of gas supply) is based on the price of oil, indexed during a three month period from July – September.
 - This contract was initiated in 1988.
- Beluga contract (10% of gas supply) is based on the price of oil.
 - This contract was initiated in 1982.

*Henry Hub is the pricing point for natural gas futures contracts traded on the NYMEX and are generally seen to be the primary price set for the North American natural gas market. North American unregulated wellhead and burner tip natural gas prices closely correlate prices set at Henry Hub.

EXHIBIT B

STATE OF ALASKA
THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

Anthony A. Price, Chair
Kate Giard
Mark K. Johnson
Robert M. Pickett
Janis W. Wilson

In the Matter of the Tariff Revision, Designated)
as TA167-4, Regarding a Proposed Gas Sales)
Agreement Between ENSTAR NATURAL)
GAS COMPANY, A DIVISION OF SEMCO)
ENERGY, INC. and ConocoPhillips Alaska,)
Inc. and a Proposed Gas Sales Agreement)
Between ENSTAR NATURAL GAS)
COMPANY, A DIVISION OF SEMCO)
ENERGY INC. and MARATHON OIL)
COMPANY)

U-08-58

**CHUGACH ELECTRIC ASSOCIATION, INC.'S
PETITION TO WITHDRAW CORRESPONDENCE**

Chugach Electric Association, Inc. ("Chugach") hereby files a Petition to
Withdraw Correspondence from the record related to the tariff designated as TA167-4
and the record of further proceedings in Docket No. U-08-58 (recently opened pursuant
to Order No. 08-58(1)). Due to administrative error, Chugach business correspondence
regarding TA167-4 was inadvertently and mistakenly submitted to the Regulatory
Commission of Alaska and published on the Commission's website in the public
comments section for TA167-4. Chugach requests that this correspondence, which was
received by the Commission on May 5, 2008, be stricken from the record related to
TA167-4 and/or U-08-58 and be removed from any further publication on the
Commission's website.

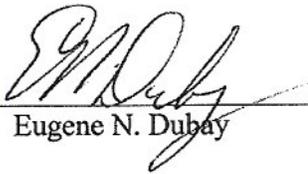
Heller Ehrman LLP
510 L STREET, SUITE 500
ANCHORAGE, AK 99501-1959
TELEPHONE (907) 277-1900

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VERIFICATION

STATE OF MICHIGAN)
) ss:
SAINT CLAIR COUNTY)

I, Eugene N. Dubay, being first duly sworn, on oath states that he is the Senior Vice President and Chief Operating Officer of ENSTAR Natural Gas Company and is authorized to execute this verification; that he has read the foregoing document and that all allegations of fact therein contained are true and correct to the best of his knowledge, information, and belief.


Eugene N. Dubay

Subscribed and sworn to before me this 19th day of May, 2008


Notary Public, State of Michigan

My Commission Expires: September 24, 2011

DEBORAH A JOHNSON
Notary Public, State of Michigan
County of St. Clair
My Commission Expires Sep. 24, 2011
Acting in the County of CASLAND

CERTIFICATE OF SERVICE

I hereby certify a true and correct copy of the foregoing document was served by first-class mail and by email upon the parties in this proceeding.

Dated at Washington, D.C. this 19th day of May, 2008.



John S. Decker