Alaska's troubled romance with LNG

After the Prudhoe Bay discovery ("the discovery") in the winter of 1967-68, Alaskans learned that their great, Arctic oilfield was also the largest natural gas find in American history.

In 1969, a Kenai Peninsula Liquefied Natural Gas (LNG) plant began cooling Cook Inlet gas to almost -260 degrees Fahrenheit, compressing it to 1/600th of its gaseous volume, transporting it by tankers to Japanese utilities. The Kenai plant introduced Alaska to its love affair with LNG. It was the only U.S. LNG export facility for over four decades.

The larger, Prudhoe Bay discovery injected vigor into the 49th state: new jobs, new public services and amenities, and countless new business opportunities for a new age of pioneers.

Prosperity also produced political tensions. Politicians wanted tax money for constituent projects. Proliferation of social services increased state spending. Environmental activists sued developers. Petroleum investors –and the state treasury- -wanted the lowest possible capital and operating costs to secure profitable returns.

After the discovery 45 years ago, companies began planning transportation alternatives for Prudhoe's oil and natural gas reserves.

Investors wanted the most efficient transportation system, but politicians wanted a say, too.

In the early 1970s Congress concluded the oil line should run through Alaska to Valdez while a gas pipeline could move Arctic gas to Midwest and other markets.

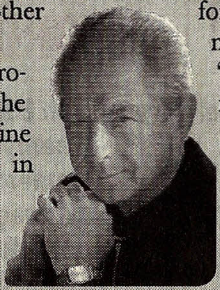
Alaskan oil producers completed the Trans Alaska Pipeline System (TAPS) in 1977.

To build a gas pipeline, twenty-seven U.S. and Canadian oil and gas companies formed Alaskan Arctic Gas Pipeline Company in the early 1970s led by former Lieutenant Governor Bob Ward. Former TransCanada President Vern Horte led the sister company, Canadian Arctic Gas Pipeline Limited.

Arctic Gas chose a Mackenzie River Midwest pipeline route for Alaskan and Canadian gas, and rejected inefficient alternatives including LNG trucks, tankers, trains, dirigibles and submarines. It spent $250 million on technical studies and the most extensive environmental study in history.

Arctic Gas was well into its planning when El Paso Natural Gas began promoting a Gravina Point LNG project near Valdez. Alaskans loved it and a new LNG romance began.

A third challenger entered the fighting cage in the mid-1970s when Northwest Energy Company and Alberta Gas Trunk Line defected from Arctic Gas' Consortium to promote a separate Alaska Highway routing for Alaska gas.



By Dave Harbour

All three projects fought for Federal Power Commission (FPC, now "FERC") approval in the United States while Alcan and Arctic fought for Canada's National Energy Board (NEB) blessing.

Alaska's governor, William A. Egan, and a budding grass roots organization called Organization for the Management of Alaskan Resources (OMAR) supported El Paso's LNG Project. Most Lower 48 Governors and influence leaders favored Arctic Gas.

In 1977, FPC Administrative Law Judge Nahun Litt said, "The Arctic Gas application is superior in almost every significant aspect when compared to El Paso."

The FPC decision supported either Alcan or Arctic; El Paso's LNG scheme was dead.

Canada's NEB rejected Arctic Gas and approved Alcan's project which, ironically, was eventually taken over by TransCanada Pipe-Lines Ltd. TransCanada now leads the Alaska gas project, along with Alaska producers. Its goal – also an ironic twist of fate – now seems to favor moving Alaska's gas, not via the Alaska Highway route which it had adopted, after opposing – but via a pipeline-LNG system to Asian markets.

America and Canada had dismissed the Arctic and El Paso LNG alternatives but successive Governors worked to commercialize North Slope gas.

Governor Jay Hammond appointed Governors Hickel and Egan to co-chair a gas task force. The 1982 group embraced LNG marketing of Alaska's gas. Hickel later formed Yukon Pacific Corporation to sponsor an LNG project.

Governor Tony Knowles issued Administrative Order 188 forming another gas pipeline advisory group in 2001. His theme was, "My way is the highway". Though a noble effort, a project could not go forward without producer 'buy-in' and producers hadn't completed their own pipeline and LNG feasibility studies.

After Congress passed the Alaska Natural Gas Pipeline Act of 2004 to expedite an Alaska gas project, Governor Frank Murkowski negotiated a contract with producers to increase taxes in return for giving them "fiscal certainty". The Legislature increased their taxes but didn't deliver the fiscal certainty necessary to finance a giant, 30-year project.

Governor Sarah Palin's "Alaska Gasline Inducement Act" (AGIA) in 2007 demanded benefits for Alaska from a pipeline project in return for subsidies. TransCanada became the State's AGIA partner. But Palin also sponsored increased oil taxes that made Alaska investments very risky.

Meanwhile, back at the LNG ranch, two main suitors continued their own quest for an enduring relationship with Alaska.

The Hickel inspired, Yukon Pacific, closed its doors in 2011 after a valiant effort to collect permits and unsuccessful work to attract LNG buyers. Municipal entities, including the City of Valdez, formed the Alaska Gasline Port Authority in 1999 supporting another Valdez LNG project which many Alaskans still love to support to this day. But last March, the Energy Department rejected the Authority's gas export application.

After 2007, US markets for Alaska's gas evaporated with skyrocketing Lower 48 shale gas production. Today's domestic gas prices seem too low to support a multi-billion dollar Arctic pipeline to the Midwest.

Japan's catastrophic tsunami and nuclear meltdown of March 2011 did stimulate demand for more natural gas.

But Canadian, Russian, Indonesian, Middle Eastern and Australian gas producers are also hungrily eyeing Asian markets. Once Asian utilities have signed long term LNG contracts, latecomers will be locked out.

Will Alaska be locked out?

Competition increases and most of Alaska's competitors don't have to build an 800 mile Arctic pipeline – on top of LNG costs. Most have lower costs of labor. Most operate in low cost temperate zones – except Russia.

Will Alaskans enthusiastically unify behind the "Alaska Gasline Inducement Act" (AGIA) gas project, helping it achieve the lowest possible costs in our high cost environment?

Or, will Alaskans continue fighting over routes, taxes and regulations as federal government rules proliferate and environmental opposition to all energy projects becomes more intense?

Alaska's troubled romance with LNG continues.

One wonders, as opposition grows and competition mounts, if the aging romance will give birth to a LNG project or lead to a final break up.

Stay tuned.

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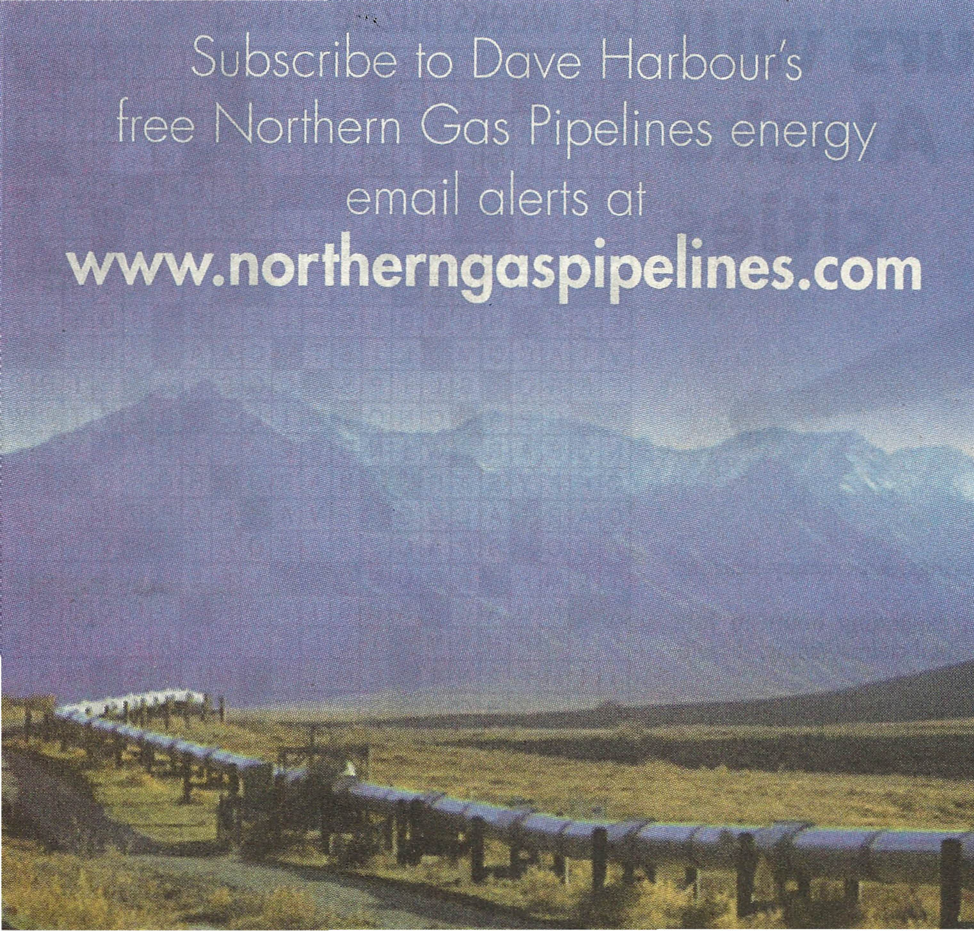
The opinions in this column are those of the author and do not necessarily reflect those of the editors.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