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April 6, 2007

Office of Oil and Gas Global Security and Supply  
Office of Fossil Energy  
U.S. Department of Energy  
Forrestal Building, Room 3E-042, FE-34,  
1000 Independence Avenue, SW.  
Washington, DC 20585

RE: OFE Application for Blanket Authorization to Export LNG from Kenai Alaska

To Whom It May Concern:

My administration supports conditional approval of the application for blanket authorization to export LNG from Kenai Alaska submitted by ConocoPhillips Alaska Natural Gas Corporation and Marathon Oil Company. To this end, I have asked my Attorney General, working in conjunction with the Department of Natural Resources commissioner, to file a motion to intervene over the application. While I support an extension of LNG export, I have concerns that the interests of Alaskans may be jeopardized in granting the blanket authorization unless several critical conditions are met. They are:

- 1) All natural gas supply needs for domestic utilities are under contract;
- 2) Continued applicant investment in projects that target replacement gas reserves;  
and
- 3) Open access to Kenai LNG Plant gas purchases for third-party producers.

The Department of Energy's approval of the application for Blanket Authorization to Export LNG coupled with the adoption of these conditions will ensure a reliable and secure supply of energy to the utility ratepayers and other commercial gas users in Southcentral Alaska for the long run and maximize the benefits of the Cook Inlet natural gas resources for all stakeholders. These conditions achieve 1) sustainable gas supplies for local utility ratepayers, 2) reserves replacement under continued LNG exports, and 3) market access for potential exploration and development investment in the Cook Inlet.

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Ensuring local public utility gas supply requirements are met is essential. But in addition, I also recognize that a diverse, large scale, and competitive oil and gas sector in the Alaska Cook Inlet basin is vital to the economy of Alaska's Southcentral region, where nearly two-thirds of the state's population resides. The Kenai LNG Plant is central to the strength and sustainability of the Cook Inlet basin's energy sector and regional economy. It provides critical deliverability backstopping services to public utilities that rely on Cook Inlet gas during winter peaking supply shortfalls. Further, the scale and stability of natural gas usage at the Kenai plant provides a vehicle to preserve the integrity of the existing resource base and functions as an enormous potential driver for exploration and development investment. This applies to both the Kenai plant owners, ConocoPhillips and Marathon, as well as to other basin producers and explorers that seek the opportunities to monetize investment in a closed basin with limited market opportunities.

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. Naturally, these factors have raised widespread concerns over local energy costs and the sustainability of gas supply for local use under continued liquefied natural gas (LNG) exports beyond 2009. It is a priority of my administration to pursue policies that enhance competition and industry diversity, and seek balance in the mix of energy alternatives and opportunities. Success in achieving this balance should give rise to sustainable gas supply and price stability for all users.

It is in this context that any approval of the LNG authorization must be conditioned. The first condition speaks directly to the necessity of meeting local utility full requirements on a year-round, day-in/day-out basis. Cook Inlet producers must continue to treat the domestic need as first priority, even to the extent of curtailing their affiliated industrial plant operations during periods of peak local utility gas consumption. This requirement must be explicit and unequivocal, just as with the federal authorization to export natural gas.

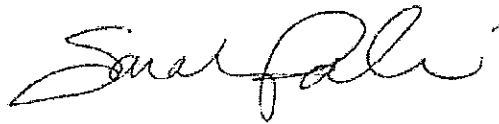
The second condition is built on the notion that the basin's existing stock of proved reserves should, at minimum, be kept whole as a condition of extended LNG export. The privilege of continued LNG exports must be accompanied with the applicants' commitment to replenish the exported volumes of gas. Maintenance of the balance in production and reserves replacement should keep the Kenai LNG Plant in business for the longterm, which serves the interests of utilities, their ratepayers, and other commercial users.

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Lastly, access to the LNG Plant and the markets it serves is essential for the growth and competitiveness of the gas market in the Cook Inlet. The importance of a competitive market applies not only to the sale of produced gas but also to the unimpeded flow of private investment into the basin to finance new exploration and development. The Kenai LNG Plant has direct access to Pacific Rim markets and serves as a potential conduit linking other basin producers, including new entrants, to expanded market opportunities. Open access to the Kenai LNG plant will therefore function as an anchor for these many interrelated interests.

I recognize that a balance must be achieved to preserve gas supply surety for Southcentral utilities and their ratepayers with maintenance of industry investment and pricing outcomes consistent with efficient marketplace competition. It is my sincere hope that under the U.S. Department of Energy's authority, the applicants will respond constructively to the concerns raised by the state and recognize benefits from continued business success in the Cook Inlet basin. Thank you for your consideration in this important matter.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sarah Palin".

Sarah Palin  
Governor

cc: The Honorable Samuel Bodman, US Secretary of Energy  
ConocoPhillips  
Marathon Oil Company