AGDC cuts staff; Valdez complains about draft EIS; competing projects move forward

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While federal, state, and municipal agencies — along with private companies and the public — review the 3,800-page draft environmental impact statement for the proposed Alaska LNG project, the state agency leading the effort the past three years has laid off more than half its staff as it completes the federal review process.

The Alaska Gasline Development Corp. (AGDC) “is restructuring to reflect our primary focus” on finishing the environmental impact statement (EIS) and receiving Federal Energy Regulatory Commission (FERC) authorization, interim AGDC president Joe Dubler said in a prepared statement July 10.

Assuming the EIS review stays on schedule and there are no delays at FERC, the commission could vote on the Alaska project application in June 2020.

The state agency let go a dozen employees, trimming its staff to eight plus contractors, Dubler said.

None of the corporation’s five vice presidents will remain as fulltime staff: the general counsel and the vice presidents for commercial and economics, project management, LNG and administrative services, and external affairs/government relations. The remaining employees, including a senior vice president, referred to as “technical staff” in Dubler’s announcement, will work on finishing the EIS and obtaining FERC approval for the $43 billion project.

Should AGDC reach that point, FERC authorizations have an end date to start construction and operations — which can vary between projects— although developers can seek extensions. The federal agency, however, is not required to grant extensions and can require updates and additional work, as can other federal regulatory agencies.

Since late 2016, AGDC has been leading the permitting effort and marketing push to find customers and investors for the most expensive gas project in North American history after North Slope oil and gas producers ExxonMobil, BP, and ConocoPhillips declined to spend substantial funds to proceed on the economically challenging project. The companies had spent several hundred million dollars between 2012 and 2016 on engineering, permitting, and commercial work, trying to put together a viable project to deliver North Slope gas to market.

Gov. Mike Dunleavy, who took office in December 2018, has made clear he does not support a state-led project and has been looking for the producers to return to the venture. ExxonMobil and BP in late May agreed to kick in up to $10 million each toward the effort, helping AGDC to cover the near-term cost of completing the federal EIS review, according to an announcement by Alaska’s lieutenant governor at an oil and gas industry conference in Anchorage. The companies did not commit to any long-term investment in the venture.

The companies’ money, plus the $20 million or so of state funds remaining in AGDC’s account, will get the corporation through the FERC process and cover its overhead at least through the end of the fiscal year next June 30. AGDC was spending about $3 million a month in state money during much of 2018 before it started to slow down this year.

Public comments to FERC on the draft impact statement are due by Oct. 3. The agency will hold a series of public meetings in Alaska; the dates have not been announced. Allowing time for state and federal agency review, along with revisions to the draft, the commission's schedule calls for release of the final EIS in March 2020.

As required in the review process, FERC on July 11 sent letters to the National Marine Fisheries Service and U.S. Fish and Wildlife Service notifying the agencies that the Alaska project is "likely to adversely affect" several federally listed threatened and endangered species. "We request formal consultation with your office regarding this project," the letters said. Such consultation is standard practice. The species are:

- Threatened species: bearded seal, ringed seal and spectacled eider.
- Endangered species: Cook Inlet beluga whale, humpback whale and polar bear.

The draft EIS, which took more than two years of work by FERC, nine other federal regulatory agencies, and a private contractor, determined that the Alaska LNG project would cause some damage to the environment, wildlife, and habitat, but many of the effects could be reduced, eliminated, or repaired by following recommendations during construction and operation.

"The project would result in substantial impacts on permafrost, wetlands, forest, and caribou (Central Arctic herds). … We found that cumulative impacts on these resources would or could be significant," the draft said. "With the implementation of various best management practices and our recommendations, most impacts on wildlife would be less than significant, but adverse impacts on some species, including caribou (Central Arctic herds) and federally listed threatened and endangered species, would occur."

The proposed development would include a gas treatment plant on the North Slope to remove carbon dioxide and other impurities from the gas stream, 807 miles of high-pressure, 42-inch-diameter pipe through the middle of the state to a gas liquefaction plant, and marine terminal in Nikiski on the east side of Cook Inlet about 60 air miles southwest of Anchorage. The LNG plant's production capacity would be about 20 million tonnes per year, among the largest in the world.

VALDEZ INTENDS TO KEEP FIGHTING

There have been arguments, however, to building the LNG plant in Nikiski. The Matanuska-Susitna Borough, which owns property at Port MacKenzie across Knik Arm from Anchorage, and the city of Valdez on Prince William Sound each filed as intervenors with FERC to advocate for their sites over Nikiski and to protect their rights to legally challenge the EIS and FERC decision.

The draft EIS review found insufficient reason to endorse either Port MacKenzie or Valdez over Nikiski, citing a range of factors that supported the project's preferred site.

All such federal reviews, the FERC-led report said, "generally consider an alternative to be preferable to a proposed action if the alternative meets the stated purpose of the project, is technically and economically feasible, and offers a significant environmental advantage over a proposed action." Neither of the two challengers met that hurdle, the EIS said.

The FERC review looks to be fair and accurate, Matanuska-Susitna Borough Manager John Moosey told the Alaska Journal of Commerce. "That's really what we wanted." The borough had complained that AGDC — and the North Slope producers when they were leading the project — failed to give Port MacKenzie a fair review.

"FERC did what they're supposed to do, and I thought they did a fine job," Moosey told the newspaper.

Valdez, however, is not so accepting.

"It is apparent that the draft EIS fails to rigorously explore and objectively evaluate" the pipeline route and LNG terminal Valdez, the city said in a statement issued July 8. Valdez has for decades promoted itself as the best site for an LNG terminal to deliver North Slope gas to market.

The draft "ignores the substantial advantages associated with the Valdez alternative," and "unlawfully" includes speculative impacts, the city said. "FERC appears to have taken AGDC's unsupported assertions regarding the impacts of the Valdez alternative at face value, without conducting the additional research or analysis" required by federal law.

Though the city's July 8 statement was not in the FERC docket for the project as of July 15, the statement said the city "intends to file comments detailing the failure of the draft EIS."

NEW LNG PROJECTS LINE UP TO MEET MARKET DEMAND

While the state has put its marketing efforts on hold to focus on finishing the FERC process, multiple other LNG export projects around the world are starting operations, under construction, soon to start building, or moving closer to an investment commitment — all looking to grab a share of expanding global demand for the fuel.

In the U.S., there are now four LNG export terminals operating on the Gulf and East coasts with work underway on four more — two are scheduled to come online this year and the other two in three to five years.

The eight plants will have a total nameplate capacity of more than 86 million tonnes of LNG per year, making the United States the world's largest LNG producer — until Qatar completes its 43 percent capacity expansion to 110 million tonnes and retakes the title around 2024. Several U.S. Gulf Coast project owners already are looking at their own expansion plans.

In Russia, the federal government has committed to cover about one-quarter of the costs of dredging, harbor, and other infrastructure improvements for the proposed Arctic LNG-2 project. Novatek, Russia's largest privately owned gas producer, is majority owner of the development planned for almost 20 million tonnes annual capacity — the same as the Alaska project.

Novatek has signed up equity partners from China, Japan, and France for the project, estimated at more than $20 billion with a positive final investment decision expected this year. It would be Russia's third large-volume LNG export terminal with three more proposed.

In Mozambique, Anadarko Petroleum and its partners from Japan, India, and Thailand announced in June a commitment to start building the country's first onshore LNG terminal. The project, at almost 13 million tonnes annual capacity, is estimated at more than $20 billion.

Though it started Mozambique LNG, Anadarko will not be around to see it through. Occidental Petroleum earlier this year negotiated a deal to buy Anadarko, and then will sell off the company's Africa assets, including Mozambique LNG, to France's Total, the world's second-largest LNG provider among the majors (Shell is No. 1).

ExxonMobil and its partners, including Italy’s Eni, are looking at their own onshore LNG plant in Mozambique, at 15 million tonnes annual capacity. Bloomberg has reported Exxon expects to reach a final investment decision by the end of 2019.

In Papua New Guinea, Total, ExxonMobil, and partners from Australia and Papua New Guinea are moving closer to sanctioning two separate projects that would more than double the country’s LNG capacity. At an estimated cost of $12 billion to $14 billion, the two projects would expand output to more than 15 million tonnes per year. Final investment decisions could come in 2020.

And in Canada, construction work continues for the Shell-led, US$30 billion LNG Canada project in Kitimat, British Columbia, with first gas expected by 2024. The project’s initial capacity will be about 13 million tonnes per year with plans to look at doubling that later in the decade.