Energy Department approves Alaska LNG exports

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May 29, 2015

(This update, provided by the Kenai Peninsula Borough mayor's office, is part of an ongoing effort to help keep the public informed about the Alaska LNG project.)

Acknowledging that the Alaska LNG project is different from 32 other export applications on file, the U.S. Department of Energy May 28 granted conditional approval for liquefied natural gas exports from the proposed terminal at Nikiski, Alaska.

Approval for exports to nations lacking free-trade agreements with the United States — including major LNG buyers Japan, Taiwan, China, India and other Asian nations — is a big step for project developers looking to make sales calls on prospective customers. The Alaska LNG partners applied for export authority 10 months ago; some Lower 48 projects have been waiting three years for Energy Department approval.

Alaska LNG received approval for exports to free-trade nations in November 2014, but other than South Korea, none of the 20 nations on the U.S. free-trade list are significant LNG customers.

In granting conditional approval for sales to non-free-trade nations, the Energy Department said Alaska LNG is different from Lower 48 proposals because North Slope gas is stranded, unable to reach domestic or foreign markets. As such, exports of Alaska gas overseas would not diminish the amount available to Lower 48 consumers — a major consideration for the department in its review of proposed export projects on the U.S. Gulf, East and West coasts.

The department in August 2014 amended its procedures and stopped issuing such conditional approvals, instructing applicants that they needed to complete their full environmental review at the Federal Energy Regulatory Commission before a decision would be taken on their export application. That rule change did not apply to Alaska, which the department said it would consider separately.

In its May 28 order, the department noted the Alaska project "is substantially more capital-intensive and will require substantially greater expense toward environmental review than any project that has been proposed for the Lower 48." As such, the regulatory certainty of export approval — even conditional approval — "will be of greater benefit" for the Alaska project, which the sponsors told the department could cost $1.5 billion for environmental and engineering work to reach FERC approval.

Energy Department approval of Alaska is conditioned on FERC completion and acceptance of an environmental impact statement for the project. The partners are working with federal regulators on gathering environmental and engineering data that will go into the EIS, with the project expected to file its formal application with FERC in late summer 2016.

Alaska LNG, under its current work schedule, hopes for a final EIS and FERC decision by fall 2018, putting the partners in a position to make a final investment decision on the $45 billion to $65 billion development. The sponsors include North Slope oil and gas producers ExxonMobil, BP and ConocoPhillips, along with the state of Alaska and pipeline partner TransCanada.

Construction could take four or five years, with first gas deliveries possible by 2024-2025.

The boom in U.S. shale gas production has sparked a push to build liquefaction plants to ship the fuel to overseas buyers. LNG export terminals are under construction in Texas (one), Louisiana (two) and one on Chesapeake Bay in Maryland. The department has granted export approval to an additional four projects, though each lacks either FERC approval to proceed or an investment commitment by project sponsors.

The Energy Department granted Alaska LNG's request for 30 years of exports, at a maximum of 20 million metric tons per year — averaging 2.5 billion cubic feet per day of natural gas liquefied and loaded aboard specially designed ships to keep the LNG cold during the voyage overseas. At 30 years, the approval is 10 years longer than the department has granted most export applications.

Under federal law, natural gas exports are generally considered to be in the public interest unless challengers can prove otherwise or the department determines the public would be harmed. The only significant opposition to the Alaska LNG application came from the Sierra Club, which cited alleged environmental damages. The department dismissed the group's objections.

Among the conditions imposed on Alaska LNG, the Energy Department required:

- Project updates April 1 and Oct. 1 each year, including reports on the status of any long-term sales contracts.
- Alaska LNG partners must file with the department any long-term sales contracts, though the companies may request confidentiality of proprietary information.
- Department approval for any change in management control of the project.