UNITED STATES OF AMERICA

DEPARTMENT OF ENERGY

OFFICE OF FOSSIL ENERGY

PHILLIPS ALASKA NATURAL GAS CORPORATION and MARATHON OIL COMPANY	)	FE DOCKET NO. 94-81-LNG

ORDER AMENDING AUTHORIZATION
TO EXPORT LIQUEFIED NATURAL GAS

DOE/FE OPINION AND ORDER NO. 261-D

MARCH 2, 1995

I. BACKGROUND

On October 5, 1994, as supplemented October 11, 1994, Phillips Alaska Natural Gas Corporation (PANGC) and Marathon Oil Company (Marathon) filed an application with the Office of Fossil Energy (FE) of the Department of Energy (DOE), under section 3 of the Natural Gas Act (NGA)1/ and DOE Delegation Order Nos. 0204-111 and 0204-127, requesting that DOE amend a long-standing authorization to export Alaskan liquefied natural gas (LNG). PANGC and Marathon seek permission to modify the existing pricing formula used for exports to two Japanese customers. The exports originate at their Kenai LNG plant in the Cook Inlet area of Alaska and are delivered to Tokyo Electric Power Company, Inc. (Tokyo Electric) and Tokyo Gas Company, Ltd. (Tokyo Gas). PANGC, a Delaware corporation with its principal place of business in Bartlesville, Oklahoma, is a wholly-owned subsidiary of Phillips Petroleum Company, a Delaware corporation. Marathon, an Ohio corporation with its principal place of business in Houston, Texas, is a wholly-owned subsidiary of USX Corporation, also a Delaware corporation. PANGC and Marathon are not affiliated with each other.

The LNG export authorization held by PANGC (successor to Phillips 66 Natural Gas Company) and Marathon was granted originally by the Federal Power Commission on April 19, 1967. This authorization was subsequently amended by DOE's Economic Regulatory Administration in 1982, 1986, 1987, and 1988, and by

1/ 15 U.S.C. 717b.

FE in 1991 and 1992.2/ PANGC and Marathon are currently authorized to export up to 64.4 trillion Btu of LNG through March 31, 2004.

PANGC and Marathon state in their current application that they entered into discussions beginning in 1993 to compare Alaska LNG sales pricing with the pricing of other projects supplying LNG to Japan under long-term contracts. As a result of those discussions, PANGC and Marathon executed the April 19 1994, Third Amendatory Agreement, which further revises the LNG pricing formula previously approved in Order 261, as amended in Order 261-A, as it pertains to LNG sales under the Extension Agreement from April 1, 1993, to March 31, 2004. The Third Amendatory Agreement replaces the current pricing provisions as follows:

$$Pn = 14.85 X J + 70$$

WHERE: WHERE

1. Pn is the price applicable to LNG sold and delivered in the calendar month "n" expressed in U.S. cents per MMBtu's.

2. "J" is the arithmetic average price over a period of three (3) months, expressed in U.S. dollars per barrel of the weighted average price of all crude oils, including raw oils, imported into Japan in each such month (JCC). The prices and quantities of imported crude oils, and the exchange rates used in the determination of each JCC shall be based on the statistics in Japan Exports & Imports Monthly, edited by the Customs Bureau, Ministry of Finance, Japan, and published by Japan Tariff Association.

2/ See DOE/ERA Opinion and Order No. 261 (1 ERA 70,130, July 28, 1988); DOE/FE Opinion and Order No. 261-A (1 FE 70,454, June 18, 1991); DOE/FE Opinion and Order No. 261-B (1 FE 70,506, December 19, 1991); and, DOE/FE Opinion and Order No. 261-C (1 FE 70,607, June 15, 1992).

> 3. The above formula shall be applied when the value of "J" is between thirteen (13) U.S. dollars per barrel or greater and twenty-six (26) U.S. dollars per barrel or less. When the value of "J" is outside this range, PANGC and Marathon are required to negotiate the LNG price to be applied. Until an agreement is reached, interim provisional pricing shall apply, calculated by using the above formula.

A notice of the application was published in the Federal Register on December 9, 1994, inviting protests, motions to intervene, notices of intervention and comments to be filed by January 9, 1995.3/ No comments or motions to intervene were received.

II. DECISION

The application filed by PANGC and Marathon has been evaluated to determine if the proposed export arrangement meets the public interest requirements of section 3 of the NGA. Under section 3, an export must be authorized unless there is a finding that it "will not be consistent with the public interest." When natural gas or LNG export applications are reviewed, domestic need for the gas to be exported is considered, as well as any other issues determined to be appropriate in a particular case. PANGC's and Marathon's LNG export proposal, as set forth in the application, is consistent with section 3 of the NGA. Because DOE previously has determined in DOE/ERA Opinion and Order No. 261 that there is no domestic need for the gas involved in this LNG export, the modification proposed by PANGC and Marathon to their existing pricing formula has been evaluated based on whether the amendment is in accord with DOE's international gas

3/ 59 F.R. 63774.

trade policy, and has been found to be consistent with that policy.

After considering all the information in the record of this proceeding, I find that approving the proposed amendment, as requested by PANGC and Marathon, is not inconsistent with the public interest.4 /

ORDER

For reasons set forth above, pursuant to section 3 of the Natural Gas Act, it is ordered that:

A. Phillips Alaska Natural Gas Corporation (PANGC) and Marathon Oil Company (Marathon) are authorized to export LNG to Japan, using the pricing formula modified in accordance with the April 19, 1994, "Third Amendatory Agreement" to the June 17, 1988, Liquefied Natural Gas Sale and Purchase Agreement, as discussed in the body of this Order.

B. All other conditions set by Order Nos. 261, 261-A, 261-B, and 261-C remain in effect.

Issued in Washington, D.C., on March 02, 1995.

Anthony J. Como
Director
Office of Coal & Electricity
Office of Fuels Programs
Office of Fossil Energy

4/ Because this LNG export arrangement uses existing facilities, DOE has determined that granting this application is not a major Federal action significantly affecting the quality of the human environment within the meaning of the National Environmental Policy Act (42 U.S.C. 4321 et seq.); therefore, neither an environmental impact statement nor an environmental assessment is required.
See 40 C.F.R. 1508.4 and 54 F.R. 15122 (April 24, 1992).