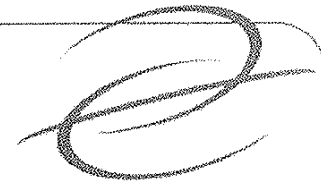


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## Overseas Factors Curbing U.S. LNG Growth, FERC Says

BY JEFF BEATTIE

Despite widespread hope that imports will ease tight gas markets this winter, the United States will be unable to boost liquefied natural gas imports substantially any time soon because consumers abroad seem willing to outbid U.S. LNG purchasers and because liquefaction plants worldwide are badly strained, according to FERC staff.

Although some policymakers and consumers assume the LNG bottleneck for the United States is a lack of U.S. import capacity, "that is exactly untrue," said FERC Chairman Joe Kelliher at a commission meeting Thursday.

In fact, "...export capacity is currently less than import capacity," he said, summarizing a presentation that Federal Energy Regulatory Commission staff had just completed on the outlook for winter fuel supplies.

In the presentation, FERC staff said: "The prime impediment to increased imports is the amount of available worldwide liquefaction [export] capacity."

FERC staff said capacity of overseas liquefaction plants—where gas is chilled and pressurized for tanker transport—is half that of global re-gasification terminals, where the imported gas is vaporized for delivery into domestic pipelines.

A secondary problem, said FERC staff, is that most U.S. LNG purchasers have been buying LNG under short-term contracts, while overseas buyers have been more willing to lock up supply with long-term purchases.

"These existing arrangements...and the willingness of non-U.S. LNG consumers to, in some cases, outbid U.S. entities for excess LNG cargoes demonstrates again that capacity holders in U.S. LNG facilities need to negotiate LNG supply contracts with longer-term commitments," says the winter fuels report.

In some cases, FERC staff said, overseas LNG purchasers outbid U.S. buyers because they are regulated utilities operating under

*(Continued on page 2)*

## Amid Many Questions, DOE Moves On Nuke 'Risk Insurance' Plan

BY GEORGE LOBSENZ

The Energy Department last week moved to implement nuclear "risk insurance" provisions of the 2005 energy law, but confessed considerable uncertainty about what sort of regulatory and legal delays warranted federal payments to utilities to cover additional costs incurred in building and starting up new reactors.

In an initial rulemaking notice seeking comment from interested parties, a rather tentative DOE took opening positions on only a handful of issues. For example, it said it did not plan to sign even preliminary agreements with utilities to provide risk insurance benefits until they apply for construction and operating licenses.

The department also suggested deals could be canceled if utilities do not follow through on projects. DOE noted that, by law, the risk insurance plan can only be offered to the first six reactors to be built, and the department said it would like to be able to reassess the benefits if an initial project flagged.

DOE floated those proposals Thursday in a notice of inquiry (NOI)

*(Continued on page 3)*

## Senate Tax Cut Bill Faces Veto Over Oil Provision

BY CHRIS HOLLY

Budget reconciliation legislation approved by the Senate Thursday faces a veto threat from the White House, which said late Thursday it opposes a provision that would disallow an accounting practice used by oil producers to lower their tax bills—a change in policy the White House said amounts to a tax increase on the industry.

The Senate late Thursday night approved a \$59.6 billion tax cut package as part of its reconciliation effort, but only after Senate leaders—bowing to pressure from Sen. Olympia Snowe (R-Maine)—agreed to remove a proposed extension of a cut in the capital gains tax. Senate conservatives vowed to restore the extension when the bill moves to a House-Senate conference committee.

In a statement of administration policy issued late Thursday, the White House said it "opposes the provision in the bill that would disallow use of the last-in, first-out (LIFO) method of accounting for certain taxpayers."

"This provision would result in a retroactive tax increase by changing a long-accepted accounting practice. The president's senior advisors would recommend the president veto the bill if this provision remains in the final legislation." *(Continued on page 4)*

## DOE Moves On Nuke Plan....(Continued from page one)

that raised a host of questions about how to interpret sections of the 2005 law under which Congress authorized huge federal payments to utilities that run into costly regulatory or legal delays in trying to build new reactors. DOE also said it would hold a hearing December 15 at a Bethesda, Md., hotel to take public comment on how to structure the "standby support" contracts with utilities building new reactors.

The Energy Policy Act of 2005 authorizes up to \$500 million in federal payments to cover costs incurred by utilities due to regulatory delays holding up operation of the first two reactors of a new generation of nuclear plants now on industry planning boards. The law authorized up to \$250 million in payments to utilities building the next four reactors. Covered costs include interest on debt and spending on replacement power for idled new reactors.

The risk insurance provisions were strongly backed by the Bush administration and the industry as necessary to persuade utilities to take on the risky and expensive efforts needed to pioneer the construction of new reactors. Supporters said past regulatory and legal delays suffered by the industry had spooked investors, and that new reactor initiatives would benefit the nation by providing low-cost electricity supplies without emitting greenhouse gases.

Despite the massive size of the new reactor subsidies, antinuclear groups failed to mount any effective opposition in Congress and the risk insurance provisions were passed relatively easily by lawmakers.

However, in its notice of inquiry, DOE appeared to acknowledge that it would have to make a lot of tough political calls about how and when to make payments to utilities, particularly in trying to determine when the Nuclear Regulatory Commission was unfairly delaying operation of a new reactor.

The department noted that utilities must meet testing and safety requirements set by NRC before starting up a new reactor, and that it might be hard to tell if any startup delays were caused by NRC or utility failures.

"The department...believes it is possible that even if there is a [startup] delay attributable to commission regulatory delays, such a delay in the regulatory schedule might not be the cause of any delay in the full power operation of a nuclear facility that does in fact occur," DOE said. "For example, other factors (such as construction or engineering delays) might contribute to or be the primary cause of the delay.

"The department requests comment on how best to establish whether the commission failed to comply with [new reactor review] schedules and, if so, whether such delay by the commission is in fact the cause of a delay in full power operation. Specifically, are there any objective, unambiguous triggers that the department could include in a regulation or in individual [risk insurance] contracts [with utilities] to better ascertain whether a delay should be attributable to the commission and thus covered by the contracts?"

DOE also asked for comments on how to treat delays

by state and local governments that must act on emergency evacuation plans needed for new reactors—a major stumbling block for new reactors in the past and one raising politically tricky safety issues.

In the same vein, the department appeared to recognize that same slippery slope in discussing delays caused by pre-operational hearings granted by NRC in response to contentions by antinuclear groups or others that new reactors have not met NRC-prescribed safety requirements.

While such controversies have resulted in major delays for nuclear projects in the past, DOE questioned whether calling a hearing to assess safety issues should be considered an unacceptable regulatory delay. "[I]t is not clear which party would be at fault for a delay caused by a pre-operational hearing, or even if 'fault' is a relevant concept in holding another hearing to ascertain if the public's overriding need for safety is satisfied," the department said.

DOE took no hard-and-fast positions in the notice of inquiry, saying all issues were up for public comment and debate.

However, it said it was not inclined to sign even preliminary agreements with utilities to provide risk insurance benefits until they filed with NRC for a construction and operating license. While saying it wanted to help utilities get financial support for their projects as soon as possible, DOE said no binding agreements could be struck before then due to funding issues. Further, it said actual risk insurance deals would not be negotiated and signed until utilities received licenses from NRC.

The department's position on preliminary agreements goes a long way to explaining the recent flood of utility announcements that they will file for new reactor licenses from NRC: They are all trying to be sure they are among the first six in line at NRC to qualify for the DOE benefits.

Meanwhile, in a development that may affect the DOE initiative, NRC earlier this month announced it was making clarifications to its new reactor licensing rules. Among other changes, the agency said it would ask utilities to update emergency planning and environmental impact data in licensing applications, even if such areas were covered and approved in previous "early site permits" that some utilities are seeking to smooth the way for new reactor development. NRC said the change was partly due to the fact that utilities were not providing as much data to NRC in the early site permitting process as the agency had initially anticipated.

In another recent development, DOE late last month released a study by the Tennessee Valley Authority that provided a cost estimate for building an updated version of General Electric's advanced boiling water reactor at its Bellefonte site in Alabama. The study concluded that a two-unit, 1,371 megawatt nuclear plant could be built within 40 months, at a cost of \$1,611 per kilowatt, suggesting a total plant cost of around \$2.2 billion. Cooperating on the 13-month study were Toshiba, Bechtel, General Electric, Global Nuclear Fuels-America and the United States Enrichment Corporation.

## DOE CO<sub>2</sub> Sequestration Project Seen As Success

In a promising development for a key technology for fighting global warming, the Energy Department says a DOE-funded carbon sequestration project has succeeded in storing 5 million tons of carbon dioxide in a Saskatchewan, Canada, oil field while doubling the field's oil recovery rate.

If the methodology used in Saskatchewan's Weyburn oil fields were applied worldwide, one-third to one-half of the planet's carbon dioxide (CO<sub>2</sub>) emissions could be removed from the atmosphere and safely stored over the next century and billions of barrels of oil could be recovered, DOE said in a recent announcement.

"The success of the Weyburn Project could have incredible implications for reducing CO<sub>2</sub> emissions and increasing America's oil production," Energy Secretary Samuel Bodman said in a statement. "Just by applying this technique to the oil fields of western Canada we would see billions of additional barrels of oil and a reduction in CO<sub>2</sub> emissions equivalent to pulling more than 200 million cars off the road for a year.

"The Weyburn Project will provide policymakers, the energy industry, and the general public with reliable information about industrial carbon sequestration and enhanced oil recovery."

In the first phase of the research project, CO<sub>2</sub> injected into the Weyburn oil field increased the underground pressure to bring more oil to the surface. The project increased the field's oil production by an additional 10,000 barrels per day and demonstrated the technical and economic feasibility of permanent carbon sequestration—the capture and permanent storage of CO<sub>2</sub> in geologic formations.

Primary oil recovery, which uses natural under-

ground pressure to bring oil to the surface, typically produces only 10 percent of an oilfield's reserves. In secondary efforts, operators flood the field with water to force the oil into the wellbore and increase recovery to 20 percent to 40 percent.

Enhanced oil recovery (EOR), the technique used in the project, has the potential to increase an oil field's ultimate oil recovery up to 60 percent and extend the oilfield's life by decades. DOE said that by using knowledge gained from the Weyburn Project, scientists believe the Weyburn oilfield will remain viable for another 20 years, produce an additional 130 million barrels of oil and sequester as much as 30 million tons of CO<sub>2</sub>.

The CO<sub>2</sub> used in the project is piped from the Great Plains Synfuels Plant near Beulah, N.D., and is a byproduct of the plant's coal gasification process. Before the Weyburn Project, much of the CO<sub>2</sub> used in similar U.S. EOR projects has been taken at considerable expense from naturally occurring reservoirs. Using an industrial source of CO<sub>2</sub> sequesters emissions that would normally be vented into the atmosphere.

The Weyburn Project now will move into a second phase where researchers will compile a best-practices manual for future projects pairing CO<sub>2</sub> sequestration and enhanced oil recovery projects.

They will also expand their efforts to the neighboring Midale Unit, develop more rigorous risk-assessment modeling techniques, improve injection efficiencies and monitor CO<sub>2</sub> flooding and storage with a variety of methods, including seismic wave technologies and geochemical surveys.

The Weyburn project was a multinational effort led by Canada's Petroleum Technology Research Centre in Regina, Saskatchewan, and cosponsored by the oilfield operator, EnCana Corp. of Calgary. —CHRIS HOLLY

## Senate Bill Faces Veto.... (Continued from page one)

The LIFO accounting method generally allows oil companies to reduce taxes on sale of oil in storage when prices are increasing. Eliminating LIFO would mean billions of dollars in additional tax payments to the government.

The veto threat is the latest obstacle facing Republican leaders as they struggle to complete work on the budget reconciliation package. Snowe's rebellion mirrored a broader revolt among House Republican moderates, who forced their leadership to remove from deficit-reduction legislation language to open the Arctic National Wildlife Refuge, known as ANWR, and to scale back cuts in student loan programs, food stamps and other entitlement programs.

After postponing several times in the last four weeks a final vote on its spending cut package, the House late Thursday approved a \$49.5 billion package of spending reductions. The Senate approved a \$35 billion package of cuts earlier this month.

The Senate deficit reduction package includes language to open ANWR, and GOP leaders hope to include the provision in the final version of the legislation to be crafted by a House-Senate conference committee.

However, House Republican moderates have vowed to oppose the budget legislation if it returns from the conference committee with the ANWR language.

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## Chevron Planning Colorado Gas Storage

Chevron has announced plans to build a large natural gas storage facility in northeastern Colorado, saying it hopes to have two of the project's four salt caverns developed and in service by 2008.

Chevron Global Gas said it hopes to have two more salt caverns at the Windy Hill storage project operating by 2010, giving the entire facility a storage capacity of 6 billion cubic feet.

The company already has filed an application with the Federal Energy Regulatory Commission for project approval.

Chevron officials said Windy Hill will be the first salt cavern storage in Colorado, which is in a region that is experiencing a significant buildout of natural gas infrastructure. Several large energy companies have recently announced plans for new pipelines to serve the Rocky Mountains, a region that has been under-served by pipelines for years. As a result, producers have often had to accept lower prices for gas produced there than in other regions.

In a November 8 statement, Chevron Global Gas President John Gass said: "[T]he Windy Hill project is strategically positioned to add critical high deliverability storage capacity for producers in the Rockies and to help maintain reliable supplies of natural gas for the growing Denver market."

The project is located near the town of Brush in Morgan County.

## Overseas Factors Curbing Growth....(Continued from page one)

"must-run" orders from regulators, and thus will pay nearly any price in short-term markets if they face a gas supply shortfall.

By contrast, most companies that hold capacity in U.S. import terminals operate on a merchant basis.

The United States is facing potentially sharp gas supply problems this winter because a series of hurricanes took a substantial amount of Gulf of Mexico supply off-line. The winter fuels report says that LNG imports are not making up the difference.

"Currently...LNG import levels are lagging behind 2004 LNG import levels" and the four operating U.S. LNG terminals currently are operating at below capacity, in aggregate, the report said.

With several new import terminals approved and under development in the U.S. Gulf Coast, the revelation that liquefaction, not re-gasification, is the primary market constraint prompted reporters to ask Kelliher Thursday whether the nation might be overbuilding import capacity.

Kelliher said that was not the case, citing projections of continued, steady increase in natural gas demand in the United States, and the fact that imports from Canada are not expected to grow.

In fact, a leading energy consulting firm concluded Thursday that despite current capacity constraints, it is the liquefaction segment of the industry that faces the long-term risk of overbuilding.

As a result of recent high oil and gas prices,

energy companies have announced new liquefaction projects that could add more than 30 million metric tons (MT) of liquefaction capacity by 2016, according to a new report from Cambridge Energy Research Associates (CERA).

"The total potential supply of 491 MT exceeds CERA's projections for actual trade [but] LNG markets are set to remain tight for the next three to five years until a sufficient number of new projects are developed," says the report, entitled *No Turning Back: The 2005 Update of CERA's LNG Scenarios*.

CERA said the liquefaction overhang possibility was most likely in the Pacific Basin, which the report says "faces potential overhang post-2010."

"However, future Pacific supply depends critically on the success of multiple projects in Australia and Iran, without which the Pacific Basin would be supply-constrained," said CERA.

## Utah Oil Sands Project Proceeding

In one of the first recent moves into Utah's oil sands, Nevtah Capital Management Inc. and Cassandra Energy recently joined up to try to tap Utah's oil sands using an exclusive extraction technology owned by Cassandra Energy.

The two companies say they have signed leases in an area of Utah known as Asphalt Ridge, that is believed to contain 900 million barrels of near-surface bitumen, a particularly heavy grade of oil.

Florida-based Nevtah and Alaska-based Cassandra Energy are among the first companies to pursue production in Utah's oil sands amidst growing industry interest in the region.

Encouraged by rising oil prices and recent success in production from Alberta's oil sands, industry is taking a hard look at the technical challenging job of sucking heavy oil from sand in Utah's oil sands regions. In addition, Utah Sen. Orrin Hatch (R) over the summer won congressional approval for a plan of financial incentives to boost oil sands production in the West.

Under a 50-50 partnership, the companies say they will try to produce oil using Cassandra's 3' Solvent Extraction Process. In that process, an extractor vessel receives crushed oil sand, exposes it to a flow of solvents, and extracts oil under a mild vacuum. Remaining solids are heated to remove lingering solvent, leaving dry solids suitable for mine backfill by Utah environmental standards, according to the companies.

The recovered solvent is re-liquefied and re-circulated to the extractor vessel in an endless loop, the companies say.

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