

FEDERAL ENERGY REGULATORY COMMISSION
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SP07-10-000

OFFICE OF THE CHAIRMAN

April 2, 2008

The Honorable Theodore R. Kulongoski
Governor
The State of Oregon
State Capitol
Salem, OR 97301-4047

Dear Governor Kulongoski:

I am writing in response to your February 14, 2008 letter in which you express concerns regarding the review of proposed natural gas projects in Oregon by the Federal Energy Regulatory Commission (FERC or Commission).

There are currently five projects in Oregon pending before the Commission: the Bradwood Landing LNG project, the Jordan Cove LNG and Pacific Connector Pipeline Projects, the Oregon LNG Project, the Palomar Gas Transmission Pipeline Project, and the Ruby Pipeline Project. We issued a draft Environmental Impact Statement (EIS) for the Bradwood Landing LNG in August 2007, and staff is working to complete a final EIS. The Jordan Cove LNG/Pacific Connector projects have filed applications with us, and staff is preparing a draft EIS. The Oregon LNG, Palomar Gas Transmission, and Ruby Pipeline Projects are still in the Commission's pre-filing process where staff is continuing to identify and resolve issues with stakeholders before the applications are filed with the Commission. The Bronco Pipeline Project is not currently before the Commission.

In your letter, you encourage FERC to conduct a regional review of how best to meet natural gas needs in Oregon and neighboring states. The Commission's policy is to ensure that all proposed projects are environmentally sound and consistent with public safety, and then leave it to the market to determine which projects are constructed. To protect the environment and ensure safety, each individual project must be evaluated on the basis of its site-specific impacts. We therefore review applications for gas projects as they are filed, based on their individual merits. The Energy Policy Act of 2005 (EPA Act 2005) directs the Commission to establish a schedule for the regulatory review by the Commission and relevant federal and state agencies that ensures "expeditious completion" of proceedings. Regional planning exercises that delay Commission review of proposed projects would be inconsistent with that requirement.

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In order to stimulate competition and provide consumers greater choices concerning access to, and diversity of gas supplies, the Commission may approve multiple projects in Oregon. Providing these kinds of choices fosters lower transportation and commodity costs of gas for the citizens of Oregon and other consumers. This approach also fulfills our goal of promoting the development of a strong energy infrastructure, while assuring adequate supplies of natural gas at a reasonable cost. The result of the Commission's decision-making process for each project will be a determination regarding a finding of public interest for LNG projects or of public convenience and necessity for pipeline projects. The demand by capital markets that project proponents provide adequate assurance of transportation agreements with shippers in order to obtain financing ensures that only well-designed, necessary projects are constructed.

In any event, as part of the environmental review for each project, the Commission staff conducts a comprehensive review of alternatives, including using other natural gas projects and alternative energy supplies to meet project objectives. The analysis of alternatives is at the heart of the environmental review process under the National Environmental Policy Act. For example, the Bradwood Landing Project draft EIS considered two offshore and two onshore proposed LNG import terminals in northern Mexico; two onshore LNG import terminals proposed for British Columbia, Canada; one onshore and five offshore LNG import terminals proposed in California; three potential sites for LNG import terminals onshore in Washington; and one potential offshore site and four proposed onshore LNG terminal locations in Oregon. In addition, the environmental documents will each describe the cumulative impacts on specific resources resulting from the proposed and other projects and activities that are reasonably expected to occur. We will also consider any analysis of alternatives that may be provided by the Oregon Department of Energy (ODOE) during the course of our review.

With respect to your request that our environmental review include a life-cycle carbon cost and emissions of LNG compared to coal and non-LNG sources of natural gas, we will address project-related air quality issues and quantify emissions of greenhouse gases both on an individual project basis and cumulatively. If the ODOE provides the Commission with its assessment of the life-cycle carbon emissions of liquefied natural gas, we will include the information in our environmental analysis. However, a moratorium on all LNG project review pending completion of this carbon study is inconsistent with the statutory mandate of "expeditious completion" of FERC LNG project review.

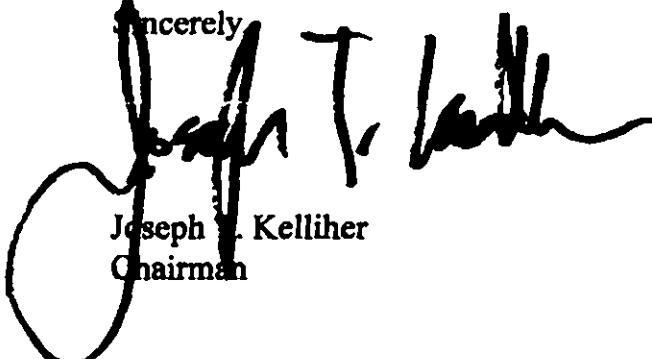
Regarding section 311 of EPAct 2005, I must emphasize that its preemptive effects are generally greatly overstated. While FERC does have exclusive jurisdiction to site LNG facilities, states retain the ability to review projects under authority provided by federal law, particularly the Coastal Zone Management Act, and to bar any projects they deem inconsistent with the mandates of those laws. Moreover, the Natural Gas Act does not authorize eminent domain to acquire land rights for LNG facilities. Instead, those rights must be acquired under state law. Indeed, section 311 expanded state prerogatives in some areas, and FERC is required to consult with state agencies on project security and safety. The Commission staff is currently working with the permitting agencies in Oregon to ensure that their concerns are addressed in our environmental review.

As our review of each project progresses, the FERC staff will continue to meet with state and local agencies, including the ODOE, and the public. Although the projects are in different stages of review with different timeframes, please know that we will continue to accept comments on each of the projects. Further, the Commission will take those comments into consideration when deciding whether to authorize any of these projects.

Also, to facilitate coordination and the dissemination of information on the proposed projects, I have designated Mr. Douglas Sipe in the Commission's Office of Energy Projects as Oregon Coordinator. Mr. Sipe will act as a single point of contact for the agencies. He can be reached at 202.502.8837 or douglas.sipe@ferc.gov.

I hope this information is helpful. If I can be of further assistance in this or any other Commission matter, please let me know.

Sincerely,



Joseph T. Kelliher
Chairman