

**FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426**

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OFFICE OF THE CHAIRMAN

July 10, 2006

**The Honorable Frank H. Murkowski
Governor of Alaska
P.O. Box 110001
Juneau, Alaska 99811-0001**

Dear Governor Murkowski:

Enclosed please find a copy of a report entitled *Second Report to Congress on Progress Made in Licensing and Constructing the Alaska Natural Gas Pipeline*. The report, which is required by section 1810 of the Energy Policy Act of 2005, was prepared by staff of the Federal Energy Regulatory Commission and was submitted by me to Congress on July 10, 2006.

The report discusses the significant steps that have taken place in the last six months to move a potential project forward. These include: an agreement on components of a draft contract between the State of Alaska and the Producer Group; the presentation to the Alaska legislature of the draft contract and of legislation bearing on issues relating to a potential pipeline project; the execution of a Federal Agency Memorandum of Understanding among 15 federal departments and agencies, establishing a cooperative project management framework for the approval of an Alaska natural gas pipeline; the nomination of a Federal Coordinator for Alaska Natural Gas Transportation Projects; the issuance by the Department of Energy of an Alaska Natural Gas Needs and Market Assessment; and efforts by Commission staff to prepare to lay the groundwork for fulfilling the Commission's environmental and certificate responsibilities associated with an Alaska natural gas pipeline project application.

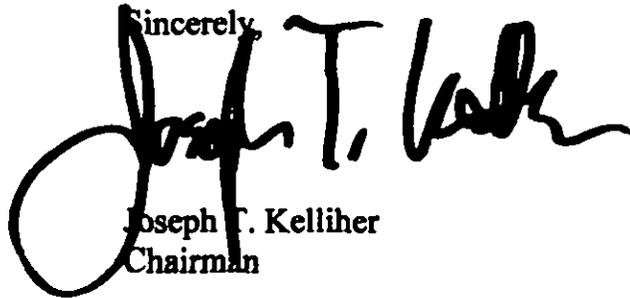
On the other hand, the report also notes that because a fiscal contract between project sponsors and the State of Alaska under the Stranded Gas Development Act has not been finalized and approved by the Alaska legislature, the opportunity for beginning meaningful development of an application in 2006 has been missed. Commission staff explains that if a project sponsor is ready to begin developing its application and conducting necessary field surveys in the spring of 2007, it is possible that an application could be filed at the Commission before the end of 2008. Our staff and those of the participating federal agencies have committed to assisting in the development of an application through the Commission's pre-filing process. The report states, however, that whether the project sponsor begins developing an application and conducting field surveys in the spring of 2007 depends largely on the Alaska state legislature acting this summer. If not, the Alaska gas pipeline will be further delayed.

The report also highlights the importance of timing of an Alaska natural gas pipeline. Staff reviews the manner in which U.S. government and industry are acting to obtain natural gas supplies to meet future demand. According to the report, while Alaska North Slope gas once would have competed only with other North American gas production, the U.S. natural gas market is turning increasingly to imported liquefied natural gas (LNG) to meet incremental growth, noting that while North Slope gas reserves represent about 13 percent of North American reserves, they are less than 1 percent of global reserves. The report predicts that given the large capital investment in LNG liquefaction facilities, LNG exporters will prefer to establish long-term relationships, and that if there is no substantial progress on building an Alaska pipeline, gas buyers in the lower 48 states will be more likely to enter into long-term LNG contracts. The report expresses concern that Alaska is at risk of being marginalized in the search for new natural gas supplies for U.S. consumption.

As you know, I have repeatedly stated how important I believe an Alaska natural gas pipeline is to America's energy future. I have directed my staff to work with federal and state authorities, project sponsors, and other interested entities to ensure that any project application submitted to the Commission is timely and thorough. Should the Commission receive such an application, you have my assurance that Commission staff will review it in a highly expeditious manner, so that the Commission is able to act on it as quickly as possible.

If you have any questions about the report or other related matters, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph T. Kelliher". The signature is written in a cursive style with a large, prominent initial "J".

Joseph T. Kelliher
Chairman

Enclosure

cc: The Honorable Ben Stevens, President, Alaska State Senate
The Honorable John Harris, Speaker, Alaska House of Representatives

Report
Submitted to the
United States Congress
by the Federal Energy Regulatory Commission

**Second Report to Congress on Progress Made in Licensing
and Constructing the Alaska Natural Gas Pipeline**

July 10, 2006