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San Francisco Chronicle

Liquefied gas' future in hands of next governor

Mark Martin, Chronicle Sacramento Bureau

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Just a few months after the November election, the governor of California will make a decision that could answer a long-simmering question about the state's energy future.

While it's barely been discussed during this year's gubernatorial campaign, whoever is governor will have the power early next year to approve or deny a bid by the world's largest mining company to build a liquefied natural gas terminal off the Southern California coast. The decision will help settle a continuing debate about liquefied natural gas among environmentalists, big business and local activists that touches on cornerstone issues in California, ranging from coastal protections to electricity supply.

And because state Treasurer Phil Angelides and Gov. Arnold Schwarzenegger have staked out very different positions, who wins in November could determine whether the project is built or not.

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"The governor's role is critical," said Susan Jordan, director of the California Coastal Protection Network and a liquefied natural gas critic.

Last month, Angelides, the Democrat who is trailing Schwarzenegger in recent statewide polls, announced his opposition to the plan by Australian giant **BHP Billiton** to import liquefied natural gas from western Australia to a terminal 14 miles off the Ventura County coast near Oxnard and then pipe it into the state's natural gas supply. Angelides also has called for greater evaluation of whether the state needs liquefied natural gas at all.

The Schwarzenegger administration, however, has consistently supported liquefied natural gas, and the governor has hinted that he would support the **BHP Billiton** project. The company has paid more than \$2.3 million in the last two years to a lobbying firm headed by a Los Angeles lawyer who is a co-chairman of Schwarzenegger's re-election campaign.

A spokesman for the governor insisted that Schwarzenegger has not made a final decision on any specific liquefied natural gas proposal.

The gas is either a key answer to the state's future energy needs or dangerous and unneeded, depending on whom you talk to.

Here's how it works: Producers in far-flung reaches of the world -- Australia, Russia and Qatar have major natural gas supplies -- cool the gas until it is condensed to a sludge, ship it across the ocean in tankers and then heat it back to a gaseous state at conversion terminals for distribution and sale in the United States.

Natural gas is a key ingredient in the state's economy.

Not only is it used to heat Californians' homes, it also is the fuel for about 38 percent of the electricity generated by power plants in California. Because California produces relatively little natural gas -- only about 15 percent of the gas it uses -- the state imports gas from the Rocky Mountains and the Southeast.

Business interests have been clamoring for liquefied natural gas for the last few years, arguing the state should increase and diversify its natural gas supply to help stabilize prices.

A limited natural gas supply "will choke the California economy," says Dorothy Rothrock, senior vice president of the California Manufacturers and Technology Association and a

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member of a coalition, funded by companies proposing liquefied natural gas projects, that is working to build support for the fuel in California.

The state's Energy Commission, which is charged with licensing power plants and projecting future energy use, predicts a slow rise in demand for natural gas during the next decade and has suggested the state could benefit from liquefied natural gas.

Opponents, however, make several arguments against it.

They note it is unsafe because it is highly flammable when being returned to a gaseous state and could be a target for terrorists.

They also note that the state should be concentrating on developing renewable power sources that would replace power plants that depend on natural gas, a fossil fuel that contributes to global warming.

"We could really end up pulling the rug out from solar, wind and conservation efforts," Jordan said.

Despite those concerns and local opposition wherever liquefied natural gas terminals have been proposed -- two in Northern California were quickly abandoned amid strong outcries -- there are plenty of big energy companies betting that the fuel source could boom along the West Coast. The biggest American oil companies, including Exxon Mobil, Chevron and Conoco-Phillips, all have stakes in natural gas operations.

And in California, five projects have been proposed, and a sixth, a terminal being built by Sempra Energy in Baja California in Mexico, is intended to serve California.

No one believes that the market, or California politicians and regulators, will allow numerous liquefied natural gas terminals in the state, so the companies are racing to get their projects in place first.

BHP Billiton, which is an oil and mining company and the largest employer in Australia, is furthest along in the state. The U.S. Coast Guard, the State Lands Commission and the Coastal Commission all could make decisions as early as January on whether to award permits to the company. And according to federal law, the governor has the power to approve the project, deny it or approve it with conditions he can impose.

BHP Billiton would appear to have an in with Schwarzenegger.

Last year, it hired the law firm Manatt, Phelps & Phillips as its lobbyist in the state for the project. A partner in the firm, George Kieffer, once worked as first lady Maria Shriver's personal attorney, and Kieffer is a co-chairman of Schwarzenegger's re-election committee. Kieffer's law firm contributed \$10,000 to Schwarzenegger's campaign earlier this

year and also has reported in filings with the secretary of state's office that it has lobbied the governor's office about liquefied natural gas in the months after it contributed to the governor.

A spokesman for **BHP** Billiton denied that the company chose its lobbying firm based on connections to Schwarzenegger, saying the company hired Manatt, Phelps & Phillips for its expertise in handling state and federal regulatory matters.

"**BHP** has never met George Kieffer, and he has never worked on our project," said Patrick Cassidy from **BHP**'s Houston office, noting other lawyers and lobbyists in the firm are working for **BHP**.

Schwarzenegger appeared last year to favor the **BHP** project. Although he did not specifically name the proposal, he said his priority on liquefied natural gas was public safety and noted that the project offshore near Oxnard would "be probably the most safe one for Californians."

Schwarzenegger spokeswoman Julie Soderlund said that the governor would not decide on any project until it was before him, and that personal relationships or campaign contributions would not influence him.

"The governor makes decision based on what is best for the people of California," she said.

Schwarzenegger has generally supported liquefied natural gas since taking office. He and his top energy advisers have suggested that the state does need to expand its supply of natural gas, and several administration officials visited Australia and Asia in 2004 to learn about the gas at the expense of business interests promoting it.

The governor also has many major contributors with an interest in liquefied natural gas, including Chevron, which has contributed more than \$500,000 to his political action committees. This month, T. Boone Pickens, a Texas oil tycoon who has become an outspoken proponent of liquefied natural gas and runs a company that provides natural gas to power cars, gave one of Schwarzenegger's committees \$250,000. Pickens has given Schwarzenegger more than \$650,000.

In contrast to Schwarzenegger, Angelides has been more skeptical of liquefied natural gas.

He supported legislation this year opposed by gas interests that would have required further study of whether the fuel was needed in California, and has said during his campaign that he is concerned that a commitment by the state to importing liquefied natural gas could lead to Californians being dependent on a costly, foreign-based energy supply.

Manatt, Phelps & Phillips, the lobbying firm working on the **BHP**

Billiton project, also gave Angelides money, contributing a total of \$1,500 to his gubernatorial campaign during the last three years.

For more coverage of the race for governor, go to www.sfgate.com/politics/

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