

Behind the fight for an Oregon LNG site

Two Texas businessmen put money and muscle

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TED SICKINGER
The Oregonian Staff

HOUSTON -- In this city of energy dreams, where speculative hustle is a time-honored enterprise, Si Garrett prides himself on delivering concrete results. Big, complex energy projects. Environmentally and politically sensitive projects. Profitable projects.

Garrett, a rangy 61-year-old with slicked-back gray hair, an Alabama drawl and a bottomless trove of war stories, spent 11 years on active duty in the Navy, helped commission two nuclear submarines and served as chief engineer on a third. As a corporate warrior over the next two decades, he traveled the globe for a succession of energy companies, building power plants from the Amazon to Manhattan.

Now in the twilight of his career, Garrett wants to build a terminal along the Columbia River to import liquefied natural gas. The project is a potential jackpot, one that could secure a regional monopoly to import gas from Asia, Russia or Australia -- and influence how much Northwest consumers pay for gas.

Yet Bradwood Landing also is a huge gamble. Just to secure permits, Garrett has tapped an investment fund for \$100 million, recruited a hand-picked team of specialists and hired a legion of consultants. Moreover, Bradwood and its little-known backers have become lightning rods in Oregon, raising their stakes still higher.

After four years and \$33 million, the project lacks basic approvals. Opposition has mounted -- from landowners, municipalities, industry groups, environmental and property-rights activists, and state politicians who could halt the terminal.

Some industry analysts question its prospects, too. Global demand for LNG far surpasses supply. As natural gas prices skyrocket -- in some cases to double U.S. prices -- cargoes are diverting from the U.S. and Europe to higher bidders in Asia. "The banks aren't going to provide construction financing without security, and that security is supply," industry consultant Andrew Flower says.

Garrett is unfazed. By the time Bradwood would open in 2012, he contends, supply will be ample. Financing, he says, is already in place. Though he admits Bradwood is the biggest challenge of his career, he doesn't foresee a dry well. "I never had the luxury of having enough money to fail at a project," Garrett says.

LNG fever

The way Garrett tells it, he and his partner at NorthernStar Natural Gas Inc., 40-year-old Australian Paul Soanes, bootstrapped their startup in the classic fashion: two guys in a room above the garage betting their life savings on a vision. Garrett's is a fine garage, mind you -- attached to the 7,000-square-foot, five-bedroom, seven-bath brick house that he shares with his wife and pet parrot in west Houston's leafy Tanglewood neighborhood.

Garrett and Soanes, moreover, are no industry fledglings. They've drilled for gas, built power plants and laid pipeline in Indonesia, Australia, China, South Korea, Hungary, Mexico, Brazil and the United Kingdom. For all that, the two have never built an LNG terminal on their own -- but not for lack of trying.

LNG is natural gas that overseas producers supercool into a condensed liquid for long-haul shipment on tankers. Terminals here then offload and reheat the gas for distribution via pipeline.

With rising competition for domestic and Canadian supplies, many experts say, imported gas will become an ever-more-important piece of the U.S. supply. And since the West Coast has no existing LNG terminals, the horse race to build the first has become a high-stakes sprint during the past decade.

Garrett and Soanes have backed a series of projects as the LNG push has swept up the West Coast. They ran CMS Energy's joint venture to build an LNG terminal in Baja, Mexico. The terminal, now wholly owned by Semptra Energy, accepted its first cargo last month.

A financial meltdown at CMS forced the company out of the venture before it was built, but Garrett and Soanes remained bent on LNG. In their first two years on their own, the partners say, they spent \$1 million each to study dozens of West Coast sites. Even now, NorthernStar is pursuing an LNG terminal at an old oil platform off the California coast.

But Bradwood, they admit, is their big bet. Among West Coast proposals, it is also leading the regulatory race -- for now. "The first day I saw Bradwood, I fell in love with it," Soanes says.

Confederation of veterans

NorthernStar's headquarters in Houston -- the 17th story of a downtown high-rise lined with dark wood paneling and Oriental rugs -- projects substance and success. Yet beyond the oil paintings, the Asian antiques, and the conference room fit for a Fortune 500 behemoth, the space is mostly vacant, and NorthernStar is little more than a handful of project specialists.

Garrett and Soanes say they drew most of NorthernStar's expertise from connections they've made over the past 20 years. Gerald Lindner, NorthernStar's chairman, was Garrett's boss 20 years ago. He runs an energy company of his own and introduced NorthernStar to private equity fund Matlin Patterson. Established by veterans of Credit Suisse, the firm specializes in high-risk distressed investments. Matlin funded initial work on Bradwood, then raised \$100 million for NorthernStar in 2006. David Glessner, the company's chief engineer, helped develop LNG projects for Enron.

Soanes, recently naturalized, has worked on and off with Garrett for 11 years. He recruited Joe Desmond, former energy czar for California Gov. Arnold Schwarzenegger and veteran of the Golden State's LNG wars. Environmentalists had no love for Desmond's industry leanings, and Democrats blocked his confirmation as director of the state energy commission. NorthernStar hired him for public and government relations.

The face of NorthernStar in Oregon is Gary Coppedge, an agricultural economist from Las Cruces, N.M. Coppedge helped land permits for the Baja project. Though NorthernStar's Web site lists him as senior vice president for development, company securities filings describe him as a consultant making \$34,000 a month to ride herd on Bradwood's permitting drive. If he succeeds, the filings say, he scores a bonus of up to \$2 million. (NorthernStar says Coppedge's pay package has been adjusted downward substantially.)

In the meantime, Coppedge is running his own consulting firm, International Business Connections, and moonlighting as president of Cutuco Energy, a company backing an LNG terminal proposal in El Salvador.

Garrett and Soanes, each of whom takes a \$600,000 salary at NorthernStar, have their own side projects. Both are partners in Renewable Biofuels Inc., a Texas company that shares office space with NorthernStar and is building the nation's second-largest biodiesel plant.

The multiproject range makes some Oregon critics wonder whether NorthernStar is in Bradwood only to flip the project to a better-financed supplier or experienced terminal operator, should regulators clear it. The partners insist not. "We're going to be a participant in the community and a good citizen for the next 40 years," Garrett says.

Visitors from Texas NorthernStar is hardly the first Texas outfit to swoop into Oregon's energy market making promises to consumers. Houston-based Enron took a disastrous turn as owner of Portland General Electric, promising rate economies, then fueling the West Coast energy crisis.

Next came private equity giant Texas Pacific Group, which tried to buy PGE out of Enron's bankruptcy. The buyout failed, partly because locals perceived the company as a carpetbagger looking to make a quick buck.

NorthernStar has worked hard to avoid that image, spending heavily to promote "clean energy," "good jobs" and "good for the Columbia" messages. The company first hired The Gallatin Group (now Gallatin Public Affairs), an influential Oregon lobbying firm, to mount a public relations campaign. In 2006, it replaced that firm with PR powerhouse Edelman.

Early on, NorthernStar opened an Astoria storefront, began pumping \$400,000 in donations into community groups and commissioned a study suggesting Bradwood would cut regional gas prices. Meanwhile, NorthernStar's technical staff and consultants buried federal, state and local regulators in data about the project. So far, results have been promising. In mid-April, the Clatsop County Board of Commissioners approved zoning variances, overriding its consultant and staff.

"That was a huge victory for NorthernStar," Coppedge says. "Technically, we don't have to have local approval. But I'm a firm believer that if you don't have local support, you don't have a project." Outside the county commission, however, local support is still questionable. Opponents have appealed the variances to a state appeals board and proposed a September ballot referendum to limit NorthernStar's ability to run pipeline on county land. NorthernStar has challenged the ballot measure.

Regardless, the firm still needs federal and state approvals.

Though federal regulators have denied a license for just one LNG site nationwide, NorthernStar wants to make sure Bradwood is not the second. In Washington, D.C., the company employs energy law firm Van Ness Feldman to make its case with the Federal Energy Regulatory Commission. It also has spent \$600,000 with D.C. lobbying firms -- mostly, NorthernStar's Desmond says, to support the company's proposed terminal off California.

NorthernStar has become a top-10 lobbyist among private companies in Salem, where it spent \$215,500 during the past two years. State reports don't specify how the money was spent. Desmond says it was for "basic legislative outreach." NorthernStar also has hired Portland law firm Stoel Rives to make the case for Bradwood.

At NorthernStar's first meeting with Oregon's Division of Land Conservation and Development, executives showed up flanked by attorneys. "We were like, 'Wow, that's an interesting approach,'" says Bob Bailey, manager of the agency's ocean and coastal division. "They were prepared for a legal battle from the start. We were hoping they would put as much effort into the environmental consultants as their legal team."

Garrett and Soanes say their approach to any project is the same: conduct detailed analysis upfront to identify "highest-risk issues" -- whether technical, commercial, environmental, political or legal -- and knock them out before spending big money.

So far, the company says, it has spent \$33 million on Bradwood alone, not counting corporate expenses or the development of its California terminal. Garrett says NorthernStar has enough of its borrowed \$100 million left to get Bradwood through permitting. But the project is already two years behind the original schedule, and he says the company may need more capital next year.

Stiffening resistance

For all NorthernStar's spending, it's not clear how many of Bradwood's potentially fatal risks have been eliminated. Initially slow to galvanize, opposition recently has spread across the political spectrum to include environmental and property-rights advocates, vineyard and farm interests, Native tribes and fishermen.

For political leaders, Bradwood -- and pipelines proposed to serve it -- are hot issues. More and more municipalities oppose them. State agencies question their environmental safety and whether, for regulatory review, NorthernStar should separate the terminal from pipelines to carry its gas. Gov. Ted Kulongoski and state congressional delegates have gone to war with federal regulators over the projects.

Even presidential candidates Hillary Clinton and Barack Obama have jumped into the fray, arguing over who was first and most vocal in opposing federal licensing of LNG terminals.

Well-financed resolve

Garrett says he understands the opposition -- to a point. "Some people are so emotionally opposed," he says, "that trying to discuss logic with them is probably a failed endeavor from the outset."

But Garrett says most Americans are in the dark about what it takes to turn on the lights. They consider power service an essential right but never look behind the curtain of its enormous infrastructure, he says.

That's why, Garrett says, NorthernStar spends so much time and money reaching out to those who will listen and answering regulators' concerns. "Our investors have made it clear that there's plenty of money to devote to this," he says. "They're in this for the long haul."