



Ron Wilkinson
Senior Vice President, Wholesale

Agrium U.S. Inc.
c/o 13131 Lake Fraser Drive S.E.
Calgary, Alberta
T2J 7E8
Direct Line (403) 225-7318
Facsimile (403) 225-7618
rwilkins@agrium.com

March 14, 2005

VIA FACSIMILE
(Original via mail)

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

Dear Governor Murkowski:

Thank you for the meeting on Tuesday, March 8, 2005. We were very encouraged by these discussions and appreciative of the leadership provided by yourself and members of your staff. We believe the meeting was highly productive in that all parties left acknowledging the importance of Agrium's Kenai Plant to the economy. It was clear that there was a sense of commitment to exploring and acting on all possibilities to keep the plant going.

As you noted during the meeting, the economic value of Agrium in Alaska is exceptional. For every thousand cubic feet of gas purchased, the plant adds in excess of \$9.00 in value to the local economy. If there is success in securing additional gas to keep at least one train operational for the next two to four years, it could inject over \$200 million into the Alaskan economy each year. Also, the morale boost this would provide to the local community and our employees would be huge!

To continue at minimum operations, we need at least 24.0 BCF of gas annually.

Agrium re-affirms its willingness to enter into firm supply contracts with producers, accommodate as much winter and summer operating flexibility as our plant will allow, and offer a substantially higher price than our historical average due to the strength of the current fertilizer commodity cycle. However, we have to remain realistic in that, even with the current outlook for fertilizer pricing, our affordable gas price is still well below the price that Cook Inlet utilities are willing to pay.

As we mentioned earlier in this letter, we believe that the gas is available but that supply to our plant will require producers to further develop reserves and deliverability. Producer incentives and clarification of existing policies are likely required to encourage the producers to undertake such an effort in a timely fashion. Agrium encourages the State to seek the input of producers prior to the implementation of any incentives to validate the likely effectiveness of any proposed incentives in achieving the desired results.

Agrium is of the opinion that if incentives are offered, they should be tied directly to the continuation of the value-added manufacturing industry in the Cook Inlet. As you recapped for those in attendance on Tuesday, once a company is forced to cease operations, not only does it impact the employees and local community, but it also sets the tone for other companies looking at doing business in the State. If incentives are offered in a fashion that provides the producer the flexibility to hold deliverability in “reserve” or sell the gas for future purposes, then in all probability Agrium’s Kenai plant will not be the beneficiary.

With these thoughts in mind, we suggest that the following initiatives be considered:

1. Production, Deliverability and Exploration Incentives

- Implement an incentive program designed to expedite increased Cook Inlet gas deliverability. The effectiveness of such a program will hinge closely on a collaborative effort between the State and producers to determine the appropriate mix of incentives. Agrium does not wish to be prescriptive but merely desires to table a list of possible incentives for the State to consider:
 - deliverability incentives applicable on any new Cook Inlet gas contracts entered into effective November 1, 2005 to November 1, 2007 with a unit amount (\$/mcf) payable by the State for all gas production for the term of the contract up to a maximum of 5 years;
 - companies that enter into contracts to sell natural gas to value-added manufacturing industries should be eligible to receive a corporate tax credit based on the value of the total price of gas sold to the industry;
 - elimination of the current three mile limitation on exploration and production incentives in the Cook Inlet;
 - the current program that allows the Commissioner - regardless of whether the lands are State, Federal, or private - to grant certain credits for geophysical work or exploratory drilling in the remote parts of the State needs to be expanded to include Cook Inlet. These credits should be specific to contracts to sell natural gas to value-added manufacturing industries. The credits may be applied to offset royalties, rents, bonuses, and taxes, or they may be assigned to others. Upon application, credits up to 50 percent of costs on State lands and up to 25 percent of costs on Federal or private lands limited to US \$5 million per project may be granted;
 - the role of the Commissioner needs to be changed regarding the granting of incentives. The regulations should be amended to provide the Commissioner with conditions under which the producer would qualify to receive the credits or benefits of the program and if the producer met these conditions then it would automatically qualify for the credits;
 - amend the administrative regulations to require the Commissioner to provide an advance written ruling, based on the petitioner's Exploration and Production (“E&P”) plans, obligating the Commissioner to grant the maximum credit of 50 percent of costs if the petitioner completes the geophysical work and/or exploration drilling;
 - bonding requirements for the smaller E&P companies operating in Cook Inlet should be reduced. The current \$1.5 million bond is excessive and is even more difficult for companies to obtain in the current insurance environment; and,
 - provide support for a jack-up rig to encourage oil and gas offshore exploration.

2. Pipeline Access

- All producers and consumers should have immediate and open access to the Cook Inlet pipeline system to move gas from the field to market. The current lack of access inhibits:
 - exploration and development, particularly by the majority of companies that do not own part of the pipeline infrastructure; and,
 - Agrium from obtaining gas from all suppliers (we are aware of at least two instances where independent producers have available gas which is currently stranded).

- Recognition by the State that the current RCA process will not achieve such resolution on a timetable that will avert Kenai plant closure. Specific issues which could be expedited by the State include:
 - clarify that the Pipeline Act applies to all Cook Inlet gas pipelines;
 - focus legislative clarification on the existing statutes;
 - accelerate progress via executive order;
 - permit interim third party private carriage on CIGGS provided that such third party transport does not prejudice the rights of any of the parties with respect to RCA dockets seeking regulated common carrier status; and,
 - State to make supporting filings before the RCA to expedite RCA handling of these matters.

Governor Murkowski, your efforts are genuinely appreciated. We look forward to working with all parties to see these ideas implemented. However, we must act quickly for time is of the essence for our employees, the community and the State.

I look forward to hearing from you soon.

Very truly yours,



Ron A. Wilkinson
Senior Vice-President, Wholesale

cc: Mike Wilson, Agrium
Chris Tworek, Agrium
Dorothy Bower, Agrium
Mike Palmer, Agrium
Bill Boycott, Agrium
Lisa Parker, Agrium

cc: Darren C. Jones, Vice President, Greater Kuparuk and Cook Inlet Areas, ConocoPhillips Alaska, Inc.
John Zager, Asset Manager Cook Inlet Gas, Unocal Alaska
Anthony M. Izzo, President & CEO, Enstar Natural Gas Company
Mike Chenault, Representative
Tom Wagoner, Senator
Kurt Olson, Representative
Mike Menge, Senior Advisor on Energy, Mining and the Environment
Bill Noll, Commissioner, Department of Commerce