

Presentation to Governor's Task Force

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Agrium Kenai Nitrogen Operations

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Kenai, Alaska

Over the past few months and at our first meeting there have been numerous questions regarding what has Agrium done to keep the facility in production. The following is a recap of what has been done since September 2000:

- Fixed the royalty rate for purchases of State royalty gas. This required getting the legislature to amend state law so companies selling gas to Agrium, including the state's 12.5% royalty share, would know their royalty exposure at the time of sale as opposed to after the fact. This was signed into law in June 2003;
- Agrium **has purchased spot gas** but all of these spot gas purchases have been made available ONLY on a fully interruptible basis;
- Attempted to purchase from all current Cook Inlet producers a significant quantity of FIRM gas at competitive rates. This effort was unsuccessful;
- Attempted to develop gas or purchase gas from any new entrants into Cook Inlet who are not presently producers for long term gas supply at competitive rates. This effort has yielded no gas deliveries to date;
- Offered to acquire developed gas reserves from current producers. This effort was unsuccessful;
- Worked with the State of Alaska on purchase of state royalty gas. The state solicited "expressions of interest" from parties that may be interested in and/or affected by the sale of royalty gas in Cook Inlet. The comment period closed April 2, 2004 with ten responses received. DNR determined that it was not in the state's best interest to proceed;
- Talked with every producer and every significant leaseholder in Cook Inlet in efforts to work out a mechanism to develop gas prospects for the Kenai plant. Despite development of a rigorous geophysical model of Cook Inlet and the thorough review of over 50 prospects at an expense well in excess of \$5 million we have been unsuccessful in identifying reasonable exploratory prospects that offered a reasonable balance of risk/return to Agrium. Some of the options we discussed with companies included purchase of gas, investment in exploration, farm-ins on exploratory prospects, joint development proposals with Agrium providing the funding, dry hole contributions, offshore prospects, development in other basins in proximity to Cook Inlet, and royalty gas from native corporations; and

- Pipelines. Agrium has worked diligently in attempting to open up most of the Cook Inlet pipeline system to ensure open access, common carrier status on most lines at reasonable rates. Current activities before the Regulatory Commission of Alaska include:
  - KKPL – a new 46-mile natural gas pipeline transporting gas from Ninilchik and Deep Creek Gas Fields. A Settlement Agreement has been negotiated between the parties (Marathon, Unocal, Agrium, SOA, and Enstar) regarding the initial tariff. Decision expected by the RCA in the near future.
  - KNPL – this pipeline was exempt from regulation until intervention by Agrium and Unocal in 2003. Pursuant to a settlement agreement between Marathon, Unocal and Agrium the line is now designated as common carrier. Current issue before the RCA is over the tariff rate to be charged.
  - CIGGS – currently an unregulated line, jointly owned by Marathon and Unocal, this pipeline delivers high pressure gas from the west side of Cook Inlet to the east side, Agrium has petitioned to have this a regulated system. The RCA has issued a ruling that sets out 6 items it will address sequentially between now and November 2005; and
  - Beluga Pipeline – located on the west side this line currently transports gas south to north. In 2004 Agrium tried to get bi-directional flow through a complaint filed with the RCA but it was rejected because CIGGS had to be accessible to shippers in order for Beluga’s bi-directional flow to have any meaning. Agrium has not refilled its Beluga bi-directional flow pending the outcome of CIGGS.

We are still trying to negotiate contracts to keep the at least 50% of the plant operational past October 31<sup>st</sup> and we recently issued a request for proposals to all producers to see if we can purchase gas past October 31<sup>st</sup>. Responses are due by April 15<sup>th</sup>. Today we don’t have any news to report in that regard but will keep the task force fully informed as things unfold.

2005 Timeline and Organizational Changes.

The schedule for 2005 consists of formation of a Shutdown Leadership Team, restart of Plant 1 (ammonia), and complete an initial reduction in force around the first of April

The Shutdown Leadership Team is in place and consists of nine employees. This group has been developing an equipment strategy, an asset disposal strategy and a project budget. The strategy will detail the plans for equipment draining, cleaning and abandonment. The asset disposal strategy will be the guide for transferring, selling, auctioning, or disposing of all assets. Other areas of emphasis

are developing a production plan through October 31<sup>st</sup>, a waste disposal plan, a document retention plan and security plan.

Three of the four fertilizer plants will run through October 31<sup>st</sup> and then we will shut them down. In the next few weeks the first reduction in force will result in the termination of about 12 employees. With the current vacant positions that have not been filled and the upcoming terminations that will leave about 190 employees at the plant for the next seven months. .

#### Employees Issues and Employee Support

Immediately following our announcement we met with all employees. Since then we have met on an almost weekly basis with employees to provide them with the latest information and answer questions.

- On our internal web site we have “Plant Closure Questions and Answers” covering issues like unemployment insurance, issues associated with an employee’s 401(k), COBRA and other medical insurance issues, to name a few.
- The Employee Support Committee, a volunteer committee made up of nine employees from management staff and hourly employees, has formed to provide employees with information and resources including finances, outplacement services, job search, retraining and continuing education, counseling for anxiety and stress, medical insurance, and starting up a business. This committee also has a page on the internal web site.
- On our internal web site we also provide employees with a link to the Task Force webpage.
- We’ve sent out letters to all employees identifying what their severance package might include;
- We have allowed employees to reset contributions to health and dependent care reimbursement accounts;
- We have retained a firm to assist with outplacement assistance including resume writing, interviewing skills, career counseling, and coordination of a job fair later this year to maximize the opportunities for our employees to transition their careers;
- The Union (PACE) agreed to a one year contract extension;
- We have partnered with the Alaska Department of Labor and Kenai Job Center on career and job transition services, identification of workforce demographics and related issues. The volunteer Employee Support Committee is an active partner in this process and

We have petitioned on behalf of our employees to qualify for benefits under the Trade Adjustment Act. We would appreciate any help we can get from the task force on expediting consideration of this application.

Specific Questions Agrium has been asked to address.

### Cook Inlet Gas Markets

Currently the power and gas utility markets consume approximately 70 BCF annually, Conoco Phillips at the LNG plant – about 80 BCF annually, and Agrium with 2005 projected consumption to be about 35 BCF for a total annual consumption of 185 BCF. With regards to who supplies gas to which consumers you will have to get specific details from the producers. We know that Unocal supplies gas to Agrium and Enstar; Marathon and Conoco Phillips supply gas to the LNG plant; the utilities purchase their gas from numerous producers including Chevron, Conoco, Marathon, Aurora, and Unocal. For accurate information on how much and to which utilities the companies supply I would recommend if the task force feels this information is vital to our future efforts that we ask this question directly of these companies.

According to the Alaska Department of Natural Resources, Division of Oil and Gas, gas reserves in Cook Inlet are 2,087.5 BCF, which includes 332.0 BCF of undeveloped reserves. To develop the 332 BCF of undeveloped reserves will require the commitment of significant capital.

I might caution you that south-central Alaska might experience deliverability shortfalls as early as 2011-2012 without any additional exploration or gas storage despite the closure of our complex and the projected closure of the LNG plant in March 2009.

### Recently Agrium upgraded its water treatment facility. Why?

This is a project that has been underway for the past two years. The purpose was to upgrade the boiler feed water system.

### Is the plant for sale? If not, why not?

No, we have no plans to sell the plant, as it exists today. The closure plan will address what to do with the various assets including when and how to handle the disposal.

### What price is Agrium looking per MCF?

Although the historic average gas price paid for delivered supply to the Kenai Plant has been less than \$2.00 /mcf, current international fertilizer price levels, although dynamic, appear to be able to support an average price of \$3.00 /mcf delivered at the plant. Agrium is prepared to pay this price for the next 2 years if sufficient gas can be secured to operate without the risk of frequent outages due to lack of gas supply. Agrium is also prepared to share in the risk of fertilizer and gas market fluctuations.

Has Agrium explored seasonal operations?

Yes, Agrium has explored summer operations and at this time, the analysis has determined it is not feasible. This is due to high fixed costs of a limited operation, product would be sold on the “spot” market, which commands lower prices, and it would be difficult to attract and retain the skilled workforce.

What is the schedule for dismantling, removal and environmental remediation?

As mentioned earlier, we will begin working on the closure plan once we have the facility safely shutdown. What the closure plan entails and what the schedule is we cannot answer at this time. However as we know more details we will be more than happy to share them with the task force and the community.

If there is a potential buyer for the site and they are not in the fertilizer industry will Agrium sell?

Agrium will not sell the facility, including the land, to an entity that is direct competition with us. At this point it is too early to say if we would sell the land to a non-fertilizer entity but we would be willing to discuss options with interested buyers.