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Agrium fertilizer plant gets year reprieve

Details of new contracts confidential, but Agrium said in March it would pay more if suppliers took on some of the risk

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A new gas supply agreement between Agrium Inc. and unspecified Cook Inlet producers will buy Agrium another year to solve long-term gas supply problems at its Kenai, Alaska nitrogen fertilizer facility.

Agrium will continue to operate the plant until November 2006, after the successful conclusion of gas supply contract negotiations with the producers, the company said July 14 in a statement. (See story in July 17 issue of Petroleum News.)

The company had planned to shut the facility down Nov. 1 if it was unable to obtain economic new natural gas supply contracts.

Bill Popp, co-chairman of the governor's Agrium Task Force told Petroleum News July 20 that although Agrium and other involved parties have worked out a way for Agrium to survive an extra year, there is more work to be done to ensure adequate year-round deliverability of gas to the plant on a long-term basis. The new gas supply contract will buy time to address Cook Inlet gas deliverability issues such as gas storage, downhole maintenance and pipeline access, he said.

"Deliverability is the most pressing issue facing the gas industry today in Cook Inlet," he said, adding that shortcomings in the gas delivery system make

Agrium's gas supply problem difficult to resolve beyond a one-year contract.

Popp said the deliverability problem is seasonal. At full winter demand the system demands 900 million cubic feet per day, but the system will only deliver 700 million cubic feet per day according to latest industry figures, he said.

No details on new agreements

Agrium declined to provide financial details of the new gas agreements, saying its commercial contracts with numerous Cook Inlet gas producers are subject to strict confidentiality provisions for all parties.

"They are extremely tight-lipped about who is supplying their gas and under what circumstances it's being supplied," Popp said.

In a March request for proposals, the company offered \$3 per thousand cubic feet of gas to Cook Inlet producers, a significant jump over the historic \$2 per mcf average gas price paid for delivered supply to the Kenai plant. The higher offer was made possible by higher nitrogen prices.

Agrium told Petroleum News in March it would consider paying more than \$3 per mcf for gas if producers would share in the risk of fertilizer and gas market fluctuations with Agrium.

If a supplier was willing to enter into a shared-risk supply contract, it is possible the price Agrium pays for gas could rise above \$3 per mcf, the company said. Under a shared-risk arrangement, the price paid for gas delivered to the Kenai plant would fluctuate based on ammonia market price indicators and natural gas market indicators, as specified in the contract, according to Agrium spokeswoman Lisa Parker. The result would be a higher average price, if ammonia prices escalate and stay high. Parker said the contract would set a floor price for gas as well, likely at a price below \$3.

Agrium has a shared-risk agreement in place at its Bahia Blanca, Argentina plant, according to Richard Downey of Agrium investor and media relations. Although the Bahia Blanca deal has an initial price of far less than \$3 per mcf, the mechanics would be similar for a Kenai deal, he said.

Looking forward

The Agrium Task Force has scheduled a meeting for July 27, to approve the final draft of a report of its recommendations to the governor, Popp said. The meeting will be held at 9:00 a.m. at the state Job Services Office in Kenai.

Assuming the final draft is approved, the task force will ask the state and the federal government to continue to follow through and offer support to Agrium and impacted contractor workforce, including preparation for transition into new jobs if the plant closes.

The draft includes a request that the State of Alaska immediately commission a study that evaluates the long-term economic effects and impacts on the Cook Inlet gas production, transmission and distribution system and the communities served by that system if some or all of the existing industrial and utility users shut down.

In addition, the draft outlines recommended state action that could lead to greater oil and gas exploration in Cook Inlet, including active promotion and facilitation of mobilization of an offshore jack-up drilling rig to the basin.

Further recommendations are directed to help resolve problems of gas pipeline access in Cook Inlet. The task force report calls for new on-shore exploration as well.

“New oil and gas leasing and exploration should be allowed within previous undeveloped areas east of the existing Swanson River oil and gas fields within the Kenai National Wildlife Refuge,” the report says. “This region remains largely unexplored and may hold significant undiscovered natural gas reserves.”

The report asks the federal and state governments to aggressively promote new oil and gas leasing and exploration in outer continental shelf waters of lower Cook Inlet.

Additionally, the report recommends government support for gas storage solutions in the area, and says the State of Alaska and the Federal government should promote and facilitate new onshore and offshore 3-D seismic surveys to spur new oil and natural gas exploration in the basin.

The task force will also address the need to bring additional industry to Cook Inlet, to increase demand for natural gas in the area. The task force has found that additional gas demand would create additional stimulus to build a spur line to bring North Slope gas to Cook Inlet area consumers.

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