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Plant not for sale

Agrium considering anything and everything but a sale; relocation an option

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Despite a looming shutdown, the Agrium Inc. nitrogen fertilizer plant in Nikiski on Alaska's Kenai Peninsula isn't for sale. Agrium has plans for Alaska but they don't include setting up a possible competitor with the Nikiski plant, which would confer the ability to put as much as 1.2 million tons of urea on the Pacific market each year.

Richard Downey, an Agrium investor and media relations spokesman, nixed the idea that selling the plant was even under consideration.

"We're not talking about it," he said.

Downey said the company is pursuing financing and natural gas feedstock supply options in order to keep the Nikiski plant in operation.

Long term plans

Agrium's long-term plans for Alaska are focused on a much larger pool of gas than the Cook Inlet supply.

"We hope to relocate at some point in the future," said Lisa Parker, spokeswoman for the Kenai facility. "If North Slope gas becomes available and if there is a line that comes to Southcentral Alaska, Agrium would be interested."

If the company suddenly finds Cook Inlet to be economic again, it will stick with its Nikiski location, Parker told Petroleum News Feb. 16.

“We have 180 acres at Nikiski and it’s on the waterfront,” Parker said.

Prime waterfront parcel aside, Parker said, she is not holding her breath for a solution to pop up in the company’s battle to keep the Kenai plant alive past its scheduled November closing. Existing Cook Inlet natural gas reserves won’t give the company what it needs to carry on, she said.

“The excess gas we’ve had in previous years is depleted,” she said. “Now we are at an equilibrium between supply and demand.”

In the company’s view, the only hope for continued operations in Cook Inlet is a significant gas find, soon.

Winter gas supply dry

During winter months, when demand in the Cook Inlet area is the highest, extra gas for industrial users such as Agrium is hard to come by. Operation of the plant for the warmer part of the year is an option the company is considering — among others — in its quest to find a way to keep the plant open, according to Parker.

“We’re looking at all sorts of different options,” she said.

If the plant does reopen, only part of it will remain, Parker said. The plant will open on a smaller scale. Only one train of ammonia and one of urea would reopen, Parker said.

There is no pre-determined profit level the company must see to justify continued operations at Kenai, Parker said, adding that returns in nitrogen fertilizer manufacturing are difficult to predict.

“It’s a commodity market, we never know, the return fluctuates with commodity prices,” Parker said.

The goal of the company is simply to meet operating expenses at the plant, she said.

The company maintains that it needs gas prices of \$2 per thousand cubic feet or less to meet operational expenses. Unfortunately for industrial consumers such as Agrium, the trend in Cook Inlet for prices is higher than in the past.

Enstar Natural Gas projects the wholesale price of gas under its new Unocal contract to vary between \$3.50 and \$4.25 per mcf through the end of the decade, well above historic prices that averaged between \$2 and \$3 per mcf.

Natural gas is the largest component of costs associated with the manufacture of urea. Agrium normally expects to spend \$80 million to \$160 million per year for natural gas at Kenai, Parker told a joint meeting of the House Resources and the Senate Resources committees of the Alaska Legislature, on Feb. 11.

Last year, at full production, the plant produced 1.2 million tons of urea, Parker said.

Nitrogen business good

Agrium said Feb. 10, it had a fourth-quarter net income of \$102 million as demand and prices rose for its products worldwide. Agrium is the largest nitrogen fertilizer maker in the Americas.

While worldwide market conditions favored Agrium, the fourth quarter at the company was sweetened by a \$45 million cash payment from Unocal Corp. An arbitration panel made the award last July as compensation for Unocal failing to deliver enough fuel to the Agrium Kenai fertilizer plant. The payment seems to be the last chapter in a long-standing dispute between the companies over obligations under the purchase and sales agreement for the plant, together with associated earn-out obligation and gas supply issues. Excluding the settlement, profit was \$75 million, or 52 cents per share.

The December 2004 legal settlement also contained a new gas supply agreement designed to allow the plant to operate at an average rate of 66 percent until Oct. 31, 2005. The company said that the plant will close once the Unocal gas commitment ends, if the company can't find an attractively priced replacement gas supply.

“The new gas supply agreement will enable us to continue to meet our ongoing customer requirements for nitrogen from Kenai for 2005, while we explore alternative gas supply arrangements beyond October 31, 2005,” Mike Wilson, president and CEO of Agrium said at the time of settlement. “While Agrium remains committed to working with local gas suppliers to develop alternatives, the facility will close in November of 2005 unless alternate economic gas supplies are obtained.”

Short-term profits at Kenai good

Wilson said the profit horizon at the Kenai operations was bright — in the short term.

“Given that global nitrogen markets are expected to remain tight, we anticipate strong profitability at Kenai in 2005,” he said.

Despite the gloomy outlook for the Kenai plant, Agrium officials said they considered the outcome of the legal battle with Unocal to be a positive development.

“The agreement brings closure to what could have been a very long and drawn out court case,” said Wilson. “It enables us to operate through most of 2005, with increased clarity around operations for employees, customers, shareholders, as well as other potential gas suppliers.”

The estimated impact of the settlement will be a gain of \$36 million pre-tax or \$21 million after tax (15 cents diluted earnings per share), which will be recorded in the fourth quarter of 2004, the company said. The \$36 million pre-tax figure is net of the costs related to the expected closure of the Kenai facility, which will be accrued in the fourth quarter of 2005.

As of Nov. 30, 2004, the Kenai facility had a net book value of \$14-million, which will be fully depreciated by November 2005 in the normal course of operations, the company said.

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