

UNITED STATES OF AMERICA  
BEFORE THE  
DEPARTMENT OF ENERGY  
OFFICE OF FOSSIL ENERGY



In the matter of: )  
)  
CONOCOPHILLIPS ALASKA )  
NATURAL GAS CORPORATION )  
and )  
MARATHON OIL COMPANY )

Docket No. 07-02-LNG

**MOTION FOR LEAVE TO FILE SUPPLEMENTAL COMMENTS  
AND SUPPLEMENTAL COMMENTS OF AGRIMUM U.S. INC.**

Pursuant to section 590.302(a) of the Department of Energy’s (“DOE”) regulations,<sup>1</sup> Agrium U.S. Inc. (“Agrium”) hereby requests leave to file supplemental comments, and submits the following supplemental comments, in the above-captioned docket. In particular, Agrium makes this submission to inform DOE that Agrium’s efforts to secure natural gas supplies necessary to operate its Kenai Fertilizer Plant have been unsuccessful, and that Agrium has closed the plant until adequate gas supplies can be secured. This plant closure is further concrete evidence that the natural gas supply shortage in Cook Inlet is worsening.

**I. BACKGROUND**

On January 10, 2007, ConocoPhillips Alaska Natural Gas Corporation (“ConocoPhillips”) and Marathon Oil Company’s (“Marathon”) (collectively, “Applicants”) filed an application requesting a blanket authorization to export 99 TBtus of liquefied natural gas (“LNG”) from Alaska on a short-term or spot market basis to one or more countries on the Pacific Rim (“Application”). Numerous parties, including Agrium, filed interventions, comments, and protests. The central issue in this case is

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<sup>1</sup> 10 C.F.R. § 590.302(a) (2006).

whether there are adequate natural gas supplies in the Cook Inlet region of Alaska to satisfy both domestic demand and the requested export authorization.

## II. MOTION FOR LEAVE TO FILE ANSWER

Pursuant to section 509.302 of DOE's regulations, Agrium respectfully requests leave to file the supplemental comments included below. In cases where a supplemental filing will assist in the decision-making process by, for instance, providing information on new developments that updates the record, parties have been granted leave to make such filings.<sup>2</sup> As explained in the attached press release, on September 25, 2007, Agrium announced the closure of the Kenai Fertilizer Plant due to its inability to secure gas supplies to operate the plant. Given that the adequacy of supply to meet the demand for both domestic users and the proposed exports is the central issue in this case, this information will assist DOE and is properly inserted in the record.

Allowing Agrium leave to file these supplemental comments at this stage of the proceedings will not delay or disrupt the proceedings, "adversely affect any other participant to the proceeding," "delay the ultimate resolution of the application,"<sup>3</sup> or impose any additional burdens upon the other parties. In order to augment the record so that DOE has a complete and accurate account of the issues involved in this case, Agrium respectfully requests that DOE grant it leave to file the attached comments, and submits the following supplemental comments.

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<sup>2</sup> See, e.g., *Tennessee Gas Pipeline Co. v. Columbia Gulf Transmission Co.*, 116 F.E.R.C. ¶ 61,065 at P 12 (2006) (granting motion for leave to file answer because the answer provided "information clarifying the issues and aiding the Commission's analysis."); See also *Maritimes & Northeast Pipeline, L.L.C.*, 115 F.E.R.C. ¶ 61,069 (2006); *ISO New England, Inc.*, 118 F.E.R.C. ¶ 61,157 at P 11 (2007) (granting motions for leave to answer because the answers "provided information that assisted [the Commission] in [its] decision-making process."); *ISO New England, Inc.*, 119 F.E.R.C. ¶ 61,045 at P 16 (2007); and *Independent Energy Producers Assn. v. California Independent System Operator Corp.*, 116 F.E.R.C. ¶ 61,297 at P 7 (2006).

<sup>3</sup> See Procedural Order Granting Extension of Time to File Answers from 4/24/07 to and Including 5/8/07 at p. 2.

### III. SUPPLEMENTAL COMMENTS

Agrium owns and operates a fertilizer plant located on the east side of Cook Inlet on the Kenai Peninsula in Alaska (“Kenai Fertilizer Plant”). As explained in earlier comments, natural gas is a key feedstock in fertilizer production. In order to run at full capacity, the Kenai Fertilizer Plant requires approximately 53 BCF (56 TBtus) of natural gas per year.

On September 25, 2007, Agrium announced that it was closing the Kenai Fertilizer Plant at the end of September 2007 “due to a shortage of natural gas supply in Alaska’s Cook Inlet.”<sup>4</sup> As described in the attached announcement, Agrium attempted to negotiate contracts for natural gas for 2008 and beyond. Agrium offered producers in the region, including the Applicants, what it believed were competitive prices to obtain adequate natural gas supplies in addition to offering further incentives to encourage the development of natural gas supplies.<sup>5</sup> Despite these efforts, however, Agrium was unable to secure contracts for gas supplies. Mike Wilson, President and CEO of Agrium Inc., stated that “had it not been for the natural gas supply situation in the Cook Inlet, [Agrium] would not have had to make this difficult decision [to shut down the Kenai Fertilizer Plant] which will impact [Agrium’s] employees, customers and the community.”<sup>6</sup>

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<sup>4</sup> Press Release, Agrium Inc., Agrium Announces Closure of Kenai Nitrogen Facility (Sept. 25, 2007) (attached as Attachment 1).

<sup>5</sup> Agrium cannot disclose the specific terms of its negotiations with natural gas suppliers due to the fact that those terms are protected from disclosure by confidentiality and non-disclosure agreements.

<sup>6</sup> See Press Release, Agrium Inc., Agrium Announces Closure of Kenai Nitrogen Facility (Sept. 25, 2007) (attached as Attachment 1). In shutting down its Kenai Fertilizer Plant, Agrium will have to lay off approximately 150 Alaskan employees who worked at the plant.

Throughout these proceedings, Agrium and the other parties protesting the Application<sup>7</sup> have argued and demonstrated that Alaska's Cook Inlet region is facing severe current natural gas supply shortages.<sup>8</sup> Yet, the Applicants assert that there are adequate natural gas supplies "to satisfy both regional demand and the requested export volumes during the export term."<sup>9</sup> Agrium's inability to secure future gas supplies, and the resulting closure of its Kenai Fertilizer Plant, draws into sharp focus the inconsistency between the observed facts in the market – inadequate supplies to meet domestic demand – and the Applicants' claims.<sup>10</sup>

#### **IV. CONCLUSION**

There is a real shortage of natural gas supplies in the Cook Inlet region. The most recent evidence of this is Agrium's closure of its Kenai Fertilizer Plant for want of natural gas supply.

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<sup>7</sup> These parties include Chevron U.S.A. Inc. and Union Oil Company of California ("Chevron"); Chugach Electric Association, Inc. ("Chugach"); Enstar Natural Gas Company ("Enstar"); the State of Alaska ("State"); and Tesoro Corporation and Tesoro Alaska Company ("Tesoro").

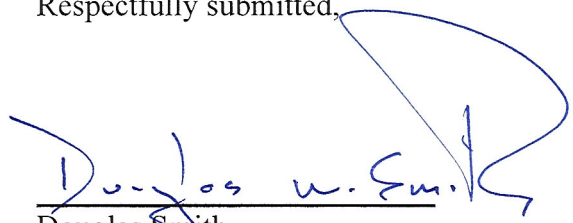
<sup>8</sup> See, e.g., Agrium's Motion to Intervene and Protest at pp. 4, 8, 9, 10-11, and 18-21; Agrium's Reply Comments at pp. 3 and 4.

<sup>9</sup> Applicants' Answer at p. 3.

<sup>10</sup> Even though the Kenai Fertilizer Plant is currently closed, Agrium would like to emphasize that it is able to, and fully intends to, reopen the plant if Agrium can obtain sufficient gas supplies. Thus, the closure of the Kenai Fertilizer Plant does not affect Agrium's natural gas demand. Agrium's demand for natural gas remains unchanged – approximately 53 BCF annually. The closure is simply indicative of the fact that Agrium's demand for natural gas is going unfulfilled. DOE should not permit Applicants to use the closure of the Kenai Fertilizer Plant due to the lack of gas supply to argue that, because the Kenai Fertilizer Plant consumption is "out of the picture", there is sufficient gas to support the requested exports. Domestic consumers' inability to secure natural gas supplies because producers prefer to sell gas into the export market does not equate to reduced domestic natural gas demand.

Agrium respectfully requests that DOE grant it leave to file supplemental comments, and that DOE consider the closure of the Kenai Fertilizer Plant as further evidence of real-world natural gas supply shortages in Cook Inlet.

Respectfully submitted,



Chris Sonnichsen  
Director of Alaska Operations  
Agrium U.S. Inc.  
P.O. Box 575  
Kenai, AK 99611  
907-776-3133

~~Douglas Smith~~  
Mona Tandon  
Van Ness Feldman, P.C.  
1050 Thomas Jefferson St, NW  
Washington, DC 20007  
(202) 298-1800

Dated: October 11, 2007.

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing Motion For Leave To File Supplemental Comments And Supplemental Comments Of Agrium U.S. Inc. by first-class mail or by email to all parties on the service list for this proceeding.

Dated at Washington, D.C., on this 11<sup>th</sup> day of October, 2007.



Mona Tandon  
Van Ness Feldman, P.C.  
1050 Thomas Jefferson St, NW  
Washington, DC 20007  
202-298-1800

UNITED STATES OF AMERICA  
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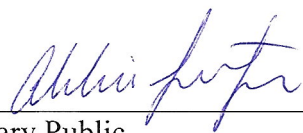
Docket No. 07-02-LNG

VERIFICATION

BEFORE ME, the undersigned authority, on this day personally appeared Mona Tandon, who, having been by me first duly sworn, on oath says that she is an attorney for the law offices of Van Ness Feldman, P.C., counsel for Agrium U.S. Inc. in the above referenced matter. She hereby certifies that she has read the forgoing document, knows the contents thereof, and believes that the same are true and correct to the best of her knowledge, information and belief.

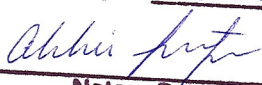
  
\_\_\_\_\_  
Mona Tandon  
Van Ness Feldman, P.C.  
1050 Thomas Jefferson St, NW  
Washington, DC 20007  
(202) 298-1800

Subscribed and sworn to before me, a notary public, this 11<sup>th</sup> day of October, 2007.

  
\_\_\_\_\_  
Notary Public

My Commission expires:

**Abbie Seltzer**  
Notary Public, District of Columbia  
My Commission Expires 7/31/2012

District of Columbia: SS  
Subscribed and Sworn to before me,  
this 11<sup>th</sup> day of October, 2007  
  
\_\_\_\_\_  
Notary Public, D.C.  
My commission expires 7/31/2012

# **ATTACHMENT 1**





## NEWS RELEASE FOR IMMEDIATE RELEASE

### Agrium announces closure of Kenai nitrogen facility

September 25, 2007 - ALL AMOUNTS ARE STATED IN U.S.S

CALGARY, Alberta -- Agrium Inc. (TSX and NYSE: AGU) announced today it is closing its Kenai nitrogen fertilizer operations due to a shortage of natural gas supply in Alaska's Cook Inlet. Agrium has diligently attempted to encourage development of natural gas supply and to negotiate contracts for 2008 and beyond. Despite these efforts, and after offering what it believed to be competitive prices and incentives, Agrium was unable to secure gas supply.

It is estimated that the facility will contribute approximately \$6-million in EBITDA in 2007 and account for less than one percent of Agrium's total 2007 EBITDA. The facility produced about 325,000 tonnes of urea and ammonia in 2007 during the five months it was operational, with the shutdown expected by month-end. It is expected the resulting reduction in nitrogen supply will further tighten the global nitrogen market in 2008.

Agrium purchased 53 billion cubic feet (BCF) of natural gas in 2001 and this supply has steadily diminished to only 10 BCF in 2007. The book value of the asset was written down in 2003 and shutdown costs were accrued at that time, therefore no further impairment charge is required. Incremental costs associated with the shutdown are expected to be less than five cents per share. Agrium's plant was shutdown for the winter period of 2006/2007 but no layoffs occurred. Closing the facility will result in the lay-off of over 100 employees.

"It is a sad day for us to have to close this facility which has added much value to the Alaskan economy for the past 40 years. It has been a major supplier to international markets in the Pacific region and was Alaska's third largest exporter in 2006, despite running at 50 percent of capacity," said Mike Wilson, President and CEO of Agrium. "Our employees at Kenai have been the key to the success of the operation. Had it not been for the natural gas supply situation in the Cook Inlet, we would not have had to make this difficult decision which will impact our employees, customers and the community."

Agrium continues to work on the feasibility of a coal gasification project to use coal as a feedstock instead of scarce natural gas for the Kenai facility. A decision on whether to proceed with the next stage of the project is anticipated later this year. The earliest the proposed facility could be operational is 2012.

#### About Agrium

Agrium Inc. is a major Retail supplier of agricultural products and services in North and South America, a leading global Wholesale producer and marketer of all three major agricultural nutrients and the premier supplier of specialty fertilizers in North America through our Advanced Technologies business unit. Agrium's Wholesale capacity is over five million tonnes of nitrogen products, over two million tonnes of potash and over one million tonnes for phosphate. Agrium's strategy is to grow across the value chain through acquisition, incremental

expansion of its existing operations and through the development, commercialization and marketing of new products and international opportunities. Our strategy places particular emphasis on growth opportunities that both increase and stabilize our earnings profile in the continuing transformation of Agrium.

#### Non-GAAP Measures

In the discussion of our performance we make reference to EBITDA (earnings before interest expense, income taxes, depreciation, amortization and asset impairment). We consider EBITDA to be a useful measure of performance because income tax jurisdictions and business segments are not synonymous and we believe that allocation of income tax charges distorts the comparability of historical performance for the different business segments. Similarly, financing and related interest charges cannot be allocated to all business segments on a basis that is meaningful for comparison with other companies.

EBITDA is not a recognized measure under GAAP, and our method of calculation may not be comparable to other companies. Similarly, EBITDA should not be used as an alternative to cash provided by (used in) operating activities as determined in accordance with GAAP.

#### *Forward-Looking Statements*

*Certain statements in this press release constitute forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties, including those referred to in the management discussion and analysis section of the Company's most recent annual report to shareholders, which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. A number of factors could cause actual results to differ materially from those in the forward-looking statements, including, but not limited to, general economic, market and business conditions, the future supply, demand, price level and availability of natural gas and nitrogen, changes in the feasibility of coal gasification, changes in the Company's anticipated financing requirements and the method of financing such requirements and changes in securities and other laws or regulations and the interpretation thereof. Agrium disclaims any intention or obligation to update or revise any forward-looking information as a result of new information or future events.*

#### **FOR FURTHER INFORMATION:**

##### **Investor/Media Relations:**

Richard Downey, Senior Director, Investor Relations  
(403) 225-7357

Contact us at: [www.agrium.com](http://www.agrium.com)