

HB

229

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: HB229-COM-ARRC-03-30-07
 Bill Version: HB 229
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
 Title Kenai Gasification Project; Railroad Bond RDU _____
 Component Alaska Railroad Corporation
 Sponsor Chenault
 Requester House Finance Component No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This legislation authorizes the Alaska Railroad Corporation (ARRC) to issue up to \$2,600,000,000 in tax-exempt bonds to finance a portion of the Agrium Kenai Gasification Project which includes facilities and equipment for the transportation of Alaska coal; and facilities and equipment for coal gasification and electrical power generation adjacent to the Agrium fertilizer plant located in Kenai.

Lower-cost debt for the Project will enhance the Project's economics, increasing its feasibility. Payment of debt service allocable to facilities and equipment that would not be owned by ARRC would be provided through a long term contract or other agreement between ARRC and the Project's owner or operator.

Prepared by: Wendy Lindskoog, Assistant Vice President, Corporate Affairs
 Division: Alaska Railroad Corporation

Phone 907.265.2498
 Date/Time 3/30/07 6:32 PM

Approved by: Emil Notti, Commissioner
 Agency: Commerce, Community, and Economic Development

Date 3/30/2007

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. HB 229

ANALYSIS CONTINUATION

Payment of debt service for rolling stock, locomotives, track, facilities and other infrastructure owned by ARRC would be paid for by ARRC funds. Per AS 42.40.690, in no event will the general credit of the State of Alaska be pledged for the repayment of these bonds.

ARRC is a public corporation supported by revenues generated through its freight, passenger and real estate services. Because ARRC does not receive state funding for operations or capital improvements and is operated as an independent state-owned enterprise, this legislation would not create a fiscal impact for the State.

failed 2-5

25-LS0737\C.1
Kane
4/13/07

AMENDMENT |

OFFERED IN THE HOUSE
TO: HB 229

BY REPRESENTATIVE GARA

1 Page 4, line 4, following "this Act,"

2 Insert "and compliance with the requirement of (b) of this section,"

3

4 Page 4, following line 23:

5 Insert a new subsection to read:

6 "(b) The Alaska Railroad Corporation may not issue bonds under the authorization
7 and approval set out in this section unless the Department of Environmental Conservation
8 certifies that the coal gasification and electrical power generation facility will be designed and
9 operated in a manner that does not release more carbon dioxide into the atmosphere, per
10 megawatt of power produced, than the average carbon dioxide released per megawatt during
11 calendar year 2006 by the Beluga natural gas power plant, located on the western coast of
12 Cook Inlet."

13

14 Reletter the following subsections accordingly.

2007 HOUSE FINANCE COMMITTEE VOTE SHEET

DATE: 4-13-07

Amendment: #1

HB 224

MEMBER

Favor

Oppose

MEMBER	Favor	Oppose
THOMAS		✓
CRAWFORD		
FOSTER		
GARA	✓	
HAWKER		✓
JOULE		
KELLY		✓
NELSON	✓	
STOLTZE		✓
CHENAULT		
MEYER		✓

Yea 2

Nay 5



MATANUSKA-SUSITNA BOROUGH

Borough Manager

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jduffy@natsugov.us

April 13, 2007

Representative Bill Stoltze
Alaska State Legislature
State Capitol, Rm 501
Juneau, AK 99801-1182

Dear Representative Stoltze,

Please accept these comments on behalf of the Matanuska-Susitna Borough (Borough) regarding House Bill 229, Kenai Gasification Project – Railroad Bonds. The Borough supports the proposed Kenai Gasification Project and believes its economic feasibility is enhanced through the utilization of Port MacKenzie.

Port MacKenzie will provide significant, long lasting benefits for the proposed Kenai Gasification project, as well as the state. Port MacKenzie has a deep draft dock that does not need annual dredging and can already serve the world's largest ships (Panamax and Cape Class vessels). The Port's upland 8,940 acres and 1,300 tideland acres provides sufficient space for bulk resource storage, transport, and processing like no other port in Alaska. It also has the advantage of not shoehorning facilities into existing confined spaces. This ability eliminates potential land use and transport conflicts that other ports may have. The planned three mile oval rail loop will allow trains to load or unload without breaking up into smaller units or having to turn around.

A rail extension will be required to access Port MacKenzie. This can be accomplished and meet the Kenai Gasification project schedule. Constructing a rail extension to Port MacKenzie will significantly assist the Agrium-Kenai Gasification project, expand employment and the availability of high paying jobs statewide, increase the state's industrial tax base, increase natural resource development, and support natural gas pipeline construction and supply.

Over a 30 year period, it is estimated that a rail extension to Port MacKenzie will save \$257 million in freight costs, as compared to the Port of Anchorage.

In addition to supporting the Kenai Gasification project, utilizing Port MacKenzie makes possible several new resource development projects to develop in Interior and Southcentral Alaska. These projects include strategic minerals such as molybdenum, copper, zinc, and lead,

limestone excavation and additional coal export, as well as refined fuel products. Moreover, using Port MacKenzie creates the opportunity to establish a new industry, cement manufacturing.

The use of Port MacKenzie to support the Agrium Gasification project creates numerous state-wide benefits. At the same time, using Port MacKenzie will also eliminate potential conflicting land use controversies that are likely at the Port of Anchorage-Government Hill site. Port MacKenzie will also eliminate costly rail operations caused by the need to "break up" trains in order to access the Port of Anchorage.

Moreover, moving a 100 plus rail car on the established tracks through the already-congested Wasilla-to-Anchorage corridor will cause serious auto/rail conflicts along the numerous at-grade rail crossings in the Borough. The 100-car train will compound the congestion headaches and reduce safety on busy Borough roads, in particular at the Knik-Goose Bay Road and Parks Highway intersection, which is in the fastest growing area of the state. Congestion further erodes any opportunity for commuter rail service between the Borough and Anchorage.

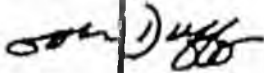
The construction of the rail line will generate over \$350 million in direct, indirect and induced economic output, and over 3,000 jobs (1,700 - 1,900 direct rail line construction jobs). The operation of the new rail line is estimated to generate at least \$2.7 million in wages per year, and between 10 and 35 long term jobs. Associated development projects facilitated and encouraged by the rail line are estimated to generate at least \$56 million in annual economic output.

We can construct the rail line to meet the Agrium schedule to begin operations, as is noted below:

- Pre-Design and Environmental 2007-2009
- Design 2008-2009
- Construction 2009-2011
- Operation 2011-2012

Clearly, Port MacKenzie provides a significantly more reliable and lower risk alternative than the Port of Anchorage. Thank you very much for the opportunity to comment on this important state-wide economic development project.

Sincerely,



John Duffy
Borough Manager

Alaska State Legislature

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Representative Mike Chenault

Sponsor Statement HB 229

Title: "An Act authorizing the Alaska Railroad Corporation to participate in a project consisting of the acquisition, construction, improvement, maintenance, equipping, or operation of real and personal property, including facilities and equipment, for the Kenai gasification project, authorizing the corporation to issue bonds to finance all or a portion of the project, and identifying these as bonds for an essential public and governmental purpose; and providing for an effective date."

Agrium U.S. Inc. currently owns and operates an ammonia and urea complex in Kenai, which is in danger of being permanently shut down due to a lack of adequate natural gas feedstock. Such a closing would have a harmful effect on the state through loss of jobs and tax base. The Agrium Kenai Gasification Project (the "Project") addresses this issue by bringing coal from Healy to Kenai, where low emission coal gasification and electricity generation plants would be constructed, allowing Agrium to continue to operate its fertilizer plants at optimal capacity.

House Bill 229 will authorize the Alaska Railroad Corporation (ARRC) to issue up to \$2,600,000,000 in tax-exempt bonds to finance a portion of the Project which includes:

- facilities and equipment for the transportation of coal from Healy to Kenai; and
- facilities and equipment for coal gasification and electrical power generation adjacent to the Agrium fertilizer plant located in Kenai.

Lower-cost debt for the Project will enhance the Project's economics, increasing its feasibility. Payment of debt service allocable to facilities and equipment that would not be owned by ARRC would be provided through a long term contract or other agreement between ARRC and the Project's owner or operator. Payment of debt service for rolling stock, locomotives, track, facilities and other infrastructure owned by ARRC would be paid for by ARRC funds. Per AS 42.40.690, in no event will the general credit of the State of Alaska be pledged for the repayment of these bonds.

ARRC is uniquely suited to participate in the Project by virtue of its ability to issue tax-exempt debt as authorized by the federal Alaska Railroad Transfer Act. A viable Project could mean significant incremental revenues to ARRC through movement of up to an additional 3 million metric tons of coal annually. The Project will also generate competitively priced surplus electricity for the regional power grid, generate excess carbon dioxide that could be used to enhance oil recovery from the wells in Cook Inlet and continue to supply Alaska businesses and organizations with fertilizer.

ARRC will have the flexibility to issue the bonds in a single issuance or in several issuances. The ARRC Board of Directors is required to approve each bond issuance.

Adopted: March 9, 2007

Resolution No. 2007-09

Relating to an Authorization for the Corporation to Take Necessary and Appropriate Steps to Prepare for the Issuance of Bonds to Finance all or a portion of the Agrium Kenai Gasification Project

WHEREAS, the Alaska Railroad Corporation ("ARRC") is a public corporation and instrumentality of the State of Alaska ("State"), organized and established pursuant to the Alaska Railroad Corporation Act ("Act"), whose mission includes providing transportation for freight and passengers and promoting the development of the State's land and natural resources and the long-term economic growth of the State; and

WHEREAS, Agrium, Inc.'s ("Agrium") urea and ammonia plants in North Kenai are in danger of being permanently shut down due to a lack of adequate natural gas feedstock in the area; and

WHEREAS, closure of the Agrium plants would result in a loss of a significant number of high paying jobs and tax base for the Kenai Peninsula as well as tax revenue to the State of Alaska ("State"); and

WHEREAS, Agrium's Kenai Gasification Project will bring low-sulfur coal from Healy to North Kenai where a low emission coal gasification plant and electricity generation plant will be built on land adjacent to Agrium's existing urea and ammonia plants; and

WHEREAS, producing gas from coal will provide Agrium with an alternative feedstock to natural gas which is in short supply in Southcentral Alaska and will allow Agrium to continue to operate its urea and ammonia plants for the foreseeable future; and

WHEREAS, the Agrium Kenai Gasification Project will also generate competitively priced electricity for the regional power grid and excess carbon dioxide that could be used to enhance oil recovery from the wells in Cook Inlet; and

WHEREAS, ARRC desires to participate in Agrium's Kenai Gasification Project, which consists of the acquisition, construction, improvement, maintenance, equipping, and operation of real and personal property including facilities and equipment for the transportation of coal from Healy to North Kenai and for facilities and equipment for coal gasification and electrical power generation adjacent to the Agrium fertilizer plants in North Kenai, and to finance all or a portion thereof through the issuance of its bonds (the "Project"); and

WHEREAS, the Project furthers the purposes of both the State and ARRC by creating a new market for the State's coal reserves at Healy that will be transported by rail, thus generating new revenue for ARRC and for the State and providing employment opportunities for residents of the State; and

WHEREAS, ARRC desires to issue one or more series of bonds or notes in an aggregate principal amount not to exceed \$2,600,000,000 (collectively, the "Bonds"), in order to finance all of a portion of the Project; and

WHEREAS, ARRC desires to authorize its Chief Executive Officer, Chief Financial Officer, General Counsel, Bond Counsel, Financial Advisors, Architects, Engineers and any other officer or official of the ARRC (collectively, the "Authorized Persons") to take certain preliminary actions with respect to the Project and the issuance of the Bonds; and

WHEREAS, in accordance with Section 42.40.285 of the Act, ARRC desires to request approval and authority from the legislature of the State for ARRC to issue the Bonds and enter into leases or other agreements in connection with the Project; and

WHEREAS, ARRC intends to be reimbursed (i) for expenditures for the Project paid not more than 60 days prior to the date of this Resolution, (ii) for expenditures pertaining to costs of issuance, (iii) for expenditures that do not exceed the lesser of \$100,000 or 5% of the portion of the proceeds of the issue used to finance the Project, or (iv) for expenditures that do not exceed 20% of the portion of the aggregate issue price of the Bonds used to finance the Project which constitute preliminary expenditures within the meaning of Treas. Reg. § 1.150-2(f)(2) of the Internal Revenue Code of 1986, as amended ("Code"); and

WHEREAS, ARRC intends that this Resolution be determined to be, among other things, a declaration of official intent under Treas. Reg. § 1.150-2 promulgated under the Code.

NOW, THEREFORE, the ARRC Board of Directors does resolve as follows:

Section 1. Authorization to Take Actions in Preparation for the Issuance of the Bonds. ARRC hereby authorizes the Authorized Persons to perform such acts on behalf of ARRC as shall be necessary and appropriate to prepare for the issuance of the Bonds in one or more series in a maximum aggregate principal amount not to exceed \$2,600,000,000, including, but not limited to: (a) requesting approval and authority from the legislature of the State for the issuance of the Bonds; (b) obtaining a ruling or rulings from the IRS with respect to the applicability of certain provisions of the Code to ARRC; (c) selecting one or more investment banking firms to serve as underwriter(s) for the Bonds (such selection to be made in accordance with the rules, regulations and procedures of ARRC); (d) obtaining ratings for the Bonds and credit enhancement for the Bonds, if deemed necessary or appropriate; and (e) performing such other tasks and taking such other actions necessary to structure the terms of the Bonds and to prepare documents

relating to the authorization, issuance and sale of the Bonds, including appropriate disclosure documents to be used in connection with the offering of the Bonds.

Section 2. Declaration of Official Intent. ARRC hereby declares its intent:

(a) that the issuance of the Bonds by ARRC be in an amount reasonably expected not to exceed \$2,600,000,000 in aggregate principal amount for the Project; and

(b) that ARRC be reimbursed from the proceeds of the Bonds (i) for expenditures paid for the Project not more than 60 days prior to the date of this Resolution; (ii) for expenditures pertaining to costs of issuance; (iii) for expenditures that do not exceed the lesser of \$100,000 or 5% of the proceeds of the issue; or (iv) for expenditures that do not exceed 20% of the aggregate issue price of the bonds which constitute preliminary expenditures within the meaning of Treas. Reg. § 1.150-2(f)(2); and

(c) that this Resolution be determined to be a declaration of official intent under Treas. Reg. § 1.150-2 promulgated under the Code; and

(d) that the issuance of the Bonds occur not later than 18 months after the latest of (i) the date on which the earliest expenditure subject to Treas. Reg. § 1.150-2 is paid, (ii) the date on which the property is placed in service or abandoned, but in no event more than three years after the earliest expenditure is paid, or (iii) the date otherwise permitted by the Code or Treasury Regulations promulgated thereunder; and

(e) that ARRC is making this Declaration of Official Intent while reserving the right at all times to assert that it is not subject to the provisions of Section 150 of the Code by virtue of Section 1207(a)(6)(A) of the Alaska Railroad Transfer Act and Section 149(c)(2)(C) of the Code.

Section 3. Ratification of Prior Actions. All actions heretofore undertaken by the Authorized Persons in connection with the Project and the Bonds are hereby ratified, confirmed and approved.

Section 4. Preliminary Resolution. This Resolution is the authorization by ARRC to take the necessary and appropriate steps to prepare for the issuance of the Bonds. Final authorization of the issuance and sale of the Bonds shall be by subsequent resolution or resolutions of ARRC.

Section 5. Severability. In the event that any one or more of the provisions contained in this Resolution shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Resolution, and this Resolution shall be construed and enforced as if such invalid, illegal or unenforceable provision had never been contained herein or therein.

Section 6. Repealer. All resolutions or parts thereof to the extent inconsistent herewith are hereby repealed, rescinded, canceled and annulled.

Section 7. Governing Law. The laws of the State shall govern the construction and interpretation of this Resolution.

Section 8. Effective Date. This Resolution shall take effect immediately upon adoption this 9th day of March, 2007.

Dear Legislators,

We strongly support the Willow to Port MacKenzie rail extension. We are seriously concerned about increased rail traffic through downtown Wasilla. Greater Wasilla has an active and passionate group of community leaders and residents that envision our area as the community of Alaska's future in business, the arts and economic growth. Higher rail traffic would split the community and destroy efforts to reach these goals. Knik-Fairview is one of the fastest growing areas in the borough. An historic and ecologically diverse area with residents, that value the grand scenery and Alaskan experience that is found here, make Knik-Fairview unacceptable for a rail line. The rail spur from Willow to Port MacKenzie provides the best option for both borough residents and Port MacKenzie industries.

We support the following resolution:

RESOLUTION OF THE GREATER WASILLA CHAMBER OF COMMERCE SUPPORTING
THE EXTENSION OF THE SOUTHCENTRAL RAILROAD LINE FROM WILLOW TO PORT MACKENZIE.

Whereas, a bulk natural resource development and export is important to the economy of the Fairbanks North Star Borough, the Denali Borough and the Matanuska Susitna Borough and the state of Alaska and Whereas,

Whereas, the shipment of Interior Coal, Timber, Limestone, Oil and Gas and other bulk commodities will become less costly.

Whereas, Port MacKenzie with its 8940 acres of industrial development lands and deep draft dock is a developing port with potential for bulk natural resources transport and

Whereas, Port MacKenzie is 26 miles closer to Tide Water than Anchorage, 89 miles closer than Whittier and 147 miles closer than Seward.

Whereas, Port MacKenzie is capable of handling panamax and cape size vessels and

Whereas, a shorter distance to tide water will make resource development in Interior and South-central Alaska more economical by lowering transport cost

Whereas, the rail extension provides a more efficient system for transporting coal to tidewater and thus will likely make the Agrium Kenai project more feasible, which will benefit the Kenai Borough as well as the rest of Alaska.

Whereas, the economic activity will contribute to the Matanuska Susitna Borough economy, tax base and employment.

Now therefore, be it resolved that the Greater Wasilla Chamber of Commerce strongly supports the South-central Alaska Rail Line Extension from Willow to Port MacKenzie and recommends 12 million in fund for the Environmental Study.

Linda Henning & Charles Grisham (Plant Manager - Alutiiq Manufacturing Corp, Pt. MacKenzie Plant)

9710 Gala Road (mile 13 KGB)

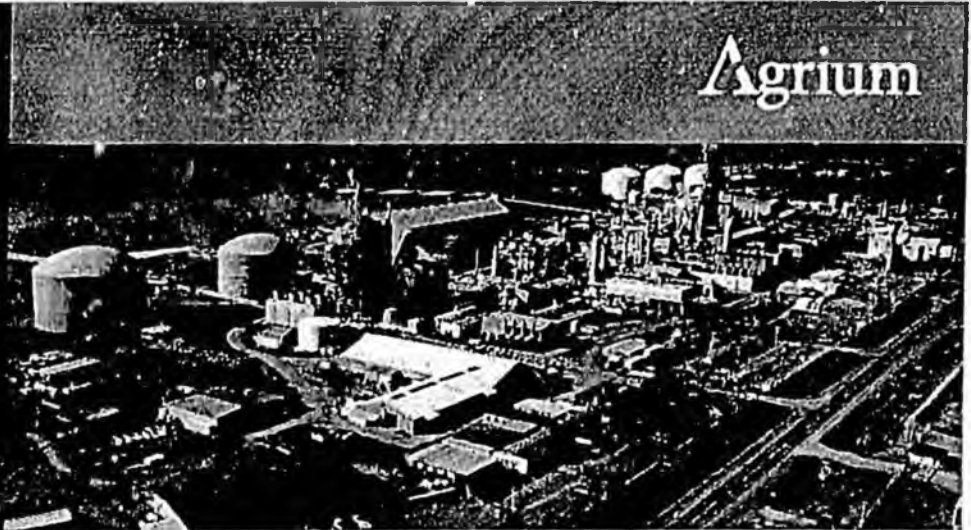
Wasilla, AK 99654

Home 907-357-9366

Cell 907-841-2453



Agrium's Kenai Gasification Project



Agrium is pursuing an environmentally friendly technology that could add decades to the life of its Kenai Nitrogen Operations, support hundreds of well-paying jobs, preserve a major tax base and provide a new source of competitively priced power.

The Kenai Gasification Project would develop a world-class, low-emission coal gasification facility that would provide Alaska's largest value-added business the feedstock required to operate over the long-term. The Kenai fertilizer plant suspended manufacturing during the 2006-2007 winter season due to a shortage of natural gas and has operated below capacity in recent years as it sought new gas supply contracts in an increasingly tight market complicated by escalating prices.

How it works

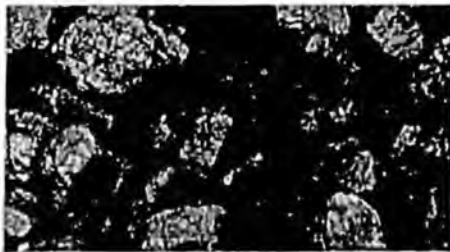
First discovered in 1792, gas made from coal provided most of the fuel gas used in U.S. homes and businesses until the 1940s when natural gas became increasingly available. Modern gasification technology efficiently turns coal into a combustible gas that can be cleaned of virtually all pollutant-forming impurities.

Gasification is essentially the controlled, but incomplete combustion of carbon. It can be applied to many feedstocks including coal, biomass and heavy oil. The Kenai Gasification Project is examining the utilization of coal to provide the required feedstock.

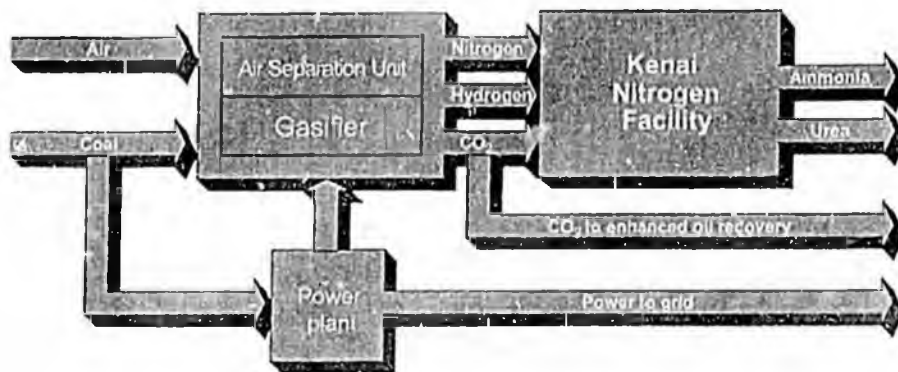
In the process, coal is fed into a gasifier unit where it is partly oxidized using pure oxygen to form a mixture of carbon monoxide and hydrogen, commonly called syngas because it can be synthesized into many forms.

Most of the syngas would be further refined into pure hydrogen using the same carbon monoxide shift reaction Agrium uses in the production of ammonia from natural gas. Water is used to convert the carbon monoxide into carbon dioxide while producing even more hydrogen. The hydrogen is used to make ammonia and the carbon dioxide is reacted with ammonia to make urea.

The project would require a new coal-fired power plant that could also supply surplus power to the Railbelt power grid. Homer Electric Association is the project partner taking the lead on power and supply issues.



The Components



All components of this project utilize existing, proven technology in a unique configuration to produce multiple benefits to Alaska and the Kenai Peninsula.

Coal – With a need of approximately three million metric tons of coal each year, the project is evaluating coal supplies along with transportation options.

Air Separation Unit – This unit processes air directly from the atmosphere to generate oxygen for the gasifier and the nitrogen used in the fertilizer process.

Gasifier – Coal is dried, pulverized and reacted with pure oxygen to form syngas. The gas is reacted with water to shift the carbon monoxide into carbon dioxide (CO₂) and hydrogen. The CO₂ is removed, along with sulfur and other impurities, and the pure hydrogen is shipped to the fertilizer plant.

Power Plant – Consists of coal-fired generation with state of the art emissions control technology. The power will supply steam and electricity to the other project components and additional electricity for sale into the grid.

Fertilizer Plant – At capacity, the facility can produce more than 1.5 million metric tons of anhydrous ammonia and urea each year. Changing the feedstock will require relatively minor modifications.

The Next Step

Agrium began investigating coal gasification during the winter of 2004 and is currently undertaking its Phase two analysis, which includes a detailed feasibility review and project permitting. If the decision is made to go forward, the facility could be operational by 2011.



Benefits for Alaska

- Provide an estimated 1,000 construction jobs, 900 direct and indirect permanent jobs.
- Utilize an economical and abundant feedstock that will provide an industrial anchor for the State's huge, but mostly undeveloped, coal reserves.
- Keep the second largest nitrogen plant in the U.S. operating for decades.
- Diversify aging power generation and help eliminate the current reliance on Cook Inlet natural gas.
- Increase the Kenai Peninsula's tax base.
- Provide a surplus of CO₂ that could be injected into the aging Cook Inlet oil fields to produce an estimated 300 million barrels of additional crude production.

Agrium



HEA Homer Electric Association, Inc.
A Sustainable Energy Cooperative



For more information, please contact:

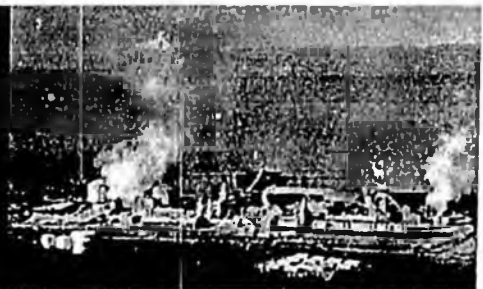
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Agrium

Kenai Nitrogen Operations

July, 2004



Summary of

Alaskan Direct Economic Impacts

"By Alaska economic standards, the Agrium operation is exceptional for its combination of high pay levels, amount and concentration of expenditures in the local area, and the degree of value added manufacturing that occurs in Alaska prior to export. The result is a high multiplier impact."

- McDowell Group, October 2002

A recent study completed by the McDowell Group in April 2004 identified the following direct impacts of Agrium's Kenai Nitrogen Operations:

- ✓ Agrium spent \$101 million in Alaska in 2003
- ✓ \$77 million in purchases of goods and services from 364 Alaskan businesses
- ✓ \$22.0 million in direct payroll; including benefits, expenditures are \$29.5 million
- ✓ \$2.2 million in taxes and lease payments
- ✓ \$195,000 in charitable donations to 43 non-profit organizations and groups

Summary of

Alaskan Indirect Economic Benefits

For every one thousand cubic feet of Cook Inlet natural gas used by Agrium for feedstock and power generation, \$9.35 in total economic output is generated.

- ✓ Agrium employees have 244 school age dependents or about 2.5 percent of the Central Peninsula student enrollment
- ✓ Agrium's total direct, indirect, and induced payroll impacts support 7.0 percent of the total Kenai Peninsula payroll
- ✓ Agrium total direct, indirect, and induced employment accounts for 4.0 percent of the total employment on the Kenai Peninsula

Did You Know?

- ✓ Agrium is the Kenai Peninsula's fourth largest private employer with an average employment of 230 people
- ✓ Agrium accounts for an additional 420 jobs in Alaska and the Kenai Peninsula Borough
- ✓ Agrium direct expenditures on the Kenai amounted to \$65 million in 2003 on goods and services provided by 320 Kenai Peninsula companies
- ✓ Agrium donations to local school and youth activities accounted for 54% of the company's charitable donations
- ✓ Agrium's Kenai Nitrogen Operations is the second largest nitrogen production complex in the U.S.A.
- ✓ Agrium's Kenai Nitrogen Operations accounts for about 6 percent of North America's nitrogen production
- ✓ In 2003, Agrium's Kenai Nitrogen Operations exported 1.2 million tons of ammonia and urea valued at \$200 million
- ✓ Agrium's Kenai Nitrogen Operations is one of Alaska's few value added industries

OUR VIEW

Coal could replace gas

Agrium looks at coal gasification to supply Kenai fertilizer plant

The Kenai plant has been turning natural gas into urea for fertilizer for almost 40 years, but its future may well depend on the economics of turning coal into gas into urea.

It's called the Kenai Blue Sky Project, and Agrium U.S. Inc. and its partners are spending several million dollars to see if it will work. If it does, it could mean a much brighter future for the Kenai plant, for its workers and community, and, as a bonus, a new supply of electricity for Southcentral Alaska.

As the ready supply of Cook Inlet natural gas has dwindled, and as new gas fields carry a much higher price tag, the Agrium plant has had to curtail ammonia and urea production in recent years. No gas to feed the plant, no product coming out. The plant suspended operations this winter and is expected to restart about March 1, but even then it will run at much less than full capacity for lack of sufficient gas. Agrium's contracts with gas suppliers expire Oct. 31, 2007, putting next year's operations — and a lot of jobs — in jeopardy.

Rather than wait for an uncertain North Slope gas line and possible spur line into Southcentral, and rather than staking its future on new Cook Inlet gas discoveries at affordable prices, Agrium is studying the option of buying coal

from the Usibelli mine at Healy, 200 miles north of Anchorage. One plan is to move the coal by train to Anchorage, then barge it to Kenai, though other train and barge routes are possible.



In addition, the coal-fired plant would supply electricity to the Southcentral power grid.

Turning the coal into gas is the fun part.

Coal and pure oxygen would go into the heated gasifier unit and, in a simplified explanation, out would come the nitrogen, hydrogen and carbon dioxide gases needed to produce urea and ammonia. The carbon

dioxide would be a welcome byproduct in Cook Inlet, where it can be reinjected into underground reservoirs to push out more oil. It's called "enhanced oil recovery" and it's a great way to pump more oil while keeping carbon dioxide out of the atmosphere.

In addition to producing gas feedstock for the fertilizer plant and providing for enhanced oil recovery, the coal-fired power plant at Kenai Blue Sky would have a lot of surplus electricity it could feed into the Southcentral power grid.

Agrium is evaluating proposals from different coal gasification equipment makers and anticipates selecting a company in January to handle environmental permitting for the project, which will be formidable.

Meanwhile, it is working with Usibelli to determine whether there are adequate coal reserves to supply Blue Sky for several decades. If it goes ahead, Blue Sky would consume up to 3 million metric tons of coal a year, almost twice what Usibelli mines for its existing customers.

Although Agrium had considered using coal from the Beluga field across Cook Inlet from its plant, the company decided it made more sense to buy coal from an existing mine rather than to try opening a new pit.

Agrium and its partners have put a lot of thought — and money — into Blue Sky. The Phase 1 feasibility study, at \$3 million, was all company money. Phase 2, preliminary engineering and permitting, is estimated at \$22 million, with \$2 million from the federally funded Denali Commission, \$5 million from the state, and the balance of \$15 million from Agrium and other partners.

The current schedule calls for Agrium's board to make a decision in the summer of 2008 on Phase 3, detailed engineering and design, estimated at \$100 million. Phase 4, construction, would run from spring 2009 to the end of 2011, at a cost of \$2 billion.

Blue Sky is a costly undertaking but, thankfully, Agrium is taking the chance.

BOTTOM LINE: A hopeful name for a needed project.