

Foothills Pipe Lines Alaska, Inc.

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May 24, 2002

William G. Britt, Jr.
Gas Pipeline Coordinator
Joint Pipeline Office
State Of Alaska
3rd Floor, 601 West 5th Avenue
Anchorage, Alaska 99501

Dear Mr. Britt:

This letter is to advise you of Foothills Pipe Lines Alaska, Inc.'s ("Foothills") decision, on behalf of the Alaskan Northwest Natural Gas Transportation Company ("ANNGTC"), to put on hold for a time ANNGTC's application for a right-of-way lease across Alaska State lands for the Alaska Natural Gas Transportation System ("ANGTS").

As you know, for more than one year, Foothills has been working diligently to complete the acquisition of a right-of-way lease across Alaska State lands for the ANGTS. We have had a long-term commitment to the ANGTS, with our work now spanning more than twenty years. Under enabling legislation passed in both the United States (the Alaska Natural Gas Transportation Act of 1976) and in Canada (the Northern Pipeline Act), the ANNGTC has secured a Federal right-of-way in Alaska, and Foothills Pipe Lines Ltd. has secured a right-of-way easement in the Yukon and reserved corridors in Alberta and British Columbia. Also, as noted in the President's Report, the State of Alaska committed to grant necessary State rights-of-way. The ANNGTC initiated the State right-of-way process by application filed in 1981. Finalization of the State right-of-way lease is the one remaining major land tenure needed for the Alaska segment of the ANGTS.

Although we have been making significant progress towards obtaining a final right-of-way lease, Foothills now finds it necessary to request that the Gas Pipeline Office ("GPO") defer further processing of ANNGTC's State right-of-way lease application until further notice. Foothills' decision to put the further processing of the application on hold is based upon the existence of several uncertainties and recent related developments, the resolution of which could significantly impact the ANGTS and the right-of-way lease application process.

The Federal energy legislation sought by the ANS producers is pending the outcome of a House-Senate conference committee. Given this and other uncertainties, our customers, the producers, are not likely to be in a position to make significant commercial decisions until the first half of 2003. In addition, legislation introduced in the Alaska legislature, which would have provided a

resolution to important legal issues identified in the context of our efforts to finalize a right-of-way lease and which included provisions to expedite State actions related to an Alaska North Slope ("ANS") natural gas pipeline and to clarify the scope of judicial review, was not enacted. Thus, we are re-evaluating the appropriate time and method to proceed with the processing of ANNGTC's right-of-way lease application.

Foothills believes that, when these matters are more conclusively resolved, the significant progress that has been made by the State and Foothills since the resumption in processing of our application will provide a solid foundation for issuance of a final State right-of-way lease for the ANGTS at the earliest possible date. Over the years, and particularly within the last year, Foothills and ANNGTC have completed a significant amount of work towards obtaining a right-of-way lease for the ANGTS, as described below.

The ANNGTC filed its application for a right-of-way lease of State lands needed for the ANGTS in 1981 (DNR File No. ADL 403427). A substantial amount of work was done and money expended on the right-of-way lease. By early 1982, however, market changes resulted in a decrease in demand for ANS natural gas. As a result, in the spring of 1982, ANNGTC suspended activity on the Alaska segment of the ANGTS. Given the extensive amount of work done and money expended on obtaining the right-of-way lease, ANNGTC decided to maintain the lease application in good standing so that a right-of-way lease could be expeditiously obtained once gas markets improved and the ANGTS was remobilized. To that end, the ANNGTC did much work to keep its pending application current. This work includes the following:

- Resolving State right-of-way and related transportation issues, such as responding to requests for information from the State regarding use of the Yukon River Bridge, completing a "Thermal Effects Study" of pipeline construction effects on the Dalton Highway, and advancing negotiation of an "Agreement on Highway Use, Maintenance and Repairs" with the State.
- Refined project cost estimating.
- Periodic reconnaissance of the right-of-way route.
- Completing frost heave engineering and other technical work in support of the State right-of-way application, including the expenditure of more than \$30 million on the development of base route maps, drawings and surveys, more than \$77 million on the development of geotechnical data, and more than \$19 million on environmental-related data.
- Extending and maintaining the ANGTS's Clean Water Act Section 404 permits.

On March 26, 2001, Foothills requested the State to resume processing ANNGTC's right-of-way lease application. Pursuant to this request, GPO issued a public notice of its intent to do so.

Since resuming review of ANNGTC's right-of-way lease application, Foothills, working with the State, has made significant progress to complete and update the record to support issuance of a State right-of-way lease for the ANGTS. This work includes the following:

- Submission of Essential Information. On June 28, 2001, in order to assist State personnel in re-familiarizing themselves with, and continuing and completing their review of ANNGTC's application, Foothills submitted three sets of seven binders and three sets of five alignment sheets, which contained what Foothills considered to be the essential documents, information and data previously filed with the State in support of ANNGTC's application.
- Legislation Regarding "Substantial Change". The State legislature and the Governor modified a provision of the Right-of-Way Leasing Act, AS 38.35.050, to clarify when changes to a right-of-way lease application will effectively constitute a new application. This amendment adds additional predictability to the application process and reduces the litigation risk that the pipeline's sponsors face as we continue to move forward.
- Legislation Regarding Phasing Under the Alaska Coastal Management Program. At Foothills's suggestion, the legislature and the Governor acted to clarify the authority of the Division of Governmental Coordination and the Commissioner of Natural Resources to phase consistency determinations under the Alaska Coastal Management Program.
- Confidentiality. Working together, Foothills and the GPO have compiled a comprehensive list of confidential and/or proprietary documents submitted to the State in support of the ANNGTC's right-of-way lease application. Recently, Foothills submitted a revised version of this matrix to the GPO. Foothills and the GPO also have made substantial progress towards an agreement on procedures for the treatment of confidential and/or proprietary information.
- Project Description. Foothills submitted, on April 18, 2002, a complete Project Description.
- Information Supplements. Among other supporting information, Foothills has submitted to the State all of the environmental information supplements, including supplements addressing subsistence and socioeconomic issues, as well as thirty-five technical information supplements. The completed technical supplements were submitted to the State on Monday, May 20, 2002.

Foothills intends to submit to GPO, by May 24, 2002:

- Supplemented Application. Supplemental answers to the Form DL-10-130 Right-of Way Lease Application questions.
- Permits List. A list of required permits and authorizations and an explanation of the "Notice to Proceed" process.
- Navigable Waters and Lands Lists. Navigable waters and lands lists.
- Alignment Sheets. ANGTS pipeline alignment sheets.

Thus, by the end of May, 2002, the State will have on file a complete, updated State right-of-way lease application for the ANGTS, which supplements the April 15, 1981 application. The supplemental materials are described in the attached list, titled "Information Filed In Support of ANGTS's Supplemental State ROW Lease Application."

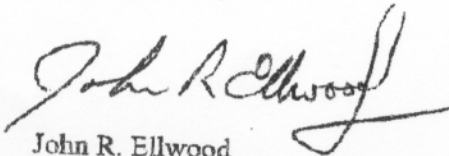
While we regret the need to delay processing of the application for a State right-of-lease for the ANGTS, Foothills believes that, under the circumstances, putting the application on hold is in the best interests of the ANGTS and the State. Accordingly, Foothills, on behalf of ANNGTC, hereby gives ninety-days notice of its intent to terminate the Memorandum of Understanding and Reimbursement Agreement Between the State of Alaska and the Alaskan Northwest Natural Gas Transportation Company Concerning the Continued Processing of the State Right-of-Way Lease Application for the Alaska Natural Gas Transportation System, dated July 18, 2001, as amended, in accordance with Section II.A.9 thereof.

In the interim, as we have in the past, Foothills will continue to do what is necessary to keep our application current so that we will be well-prepared to work with the State in the future towards the issuance of a final State right-of-way lease for the ANGTS. In this regard, we will be ready to move forward with our application and enter into a new Memorandum of Agreement when, in our judgment, events warrant renewed activity and further expenditure of funds necessary to obtain the final State right-of-way lease.

We appreciate your and your staff's efforts in working with us to obtain a State right-of-way lease for the ANGTS and to make the pipeline a reality. We look forward to continuing to work with you towards this end in the near future.

As always, please let us know if you have any questions.

Yours very truly,



John R. Ellwood
Executive Vice President and Chief Operating Officer
Foothills Pipe Lines Alaska, Inc.

on behalf of the Alaskan Northwest Natural Gas Transportation Company

cc: Honorable Tony Knowles, Governor
Mr. Jerry Brossia, Authorizing Officer
Mr. Bruce M. Botelho, Attorney General
Ms. Michelle Brown, Commissioner, Alaska Department of Environmental Conservation
Mr. Wilson Condon, Commissioner, Alaska Department of Revenue
Mr. Ed Flanagan, Commissioner, Alaska Department of Labor and Workforce Development
Mr. Patrick Galvin, Governor's Office, Department of Governmental Coordination
Mr. Joe Perkins, Commissioner, Alaska Department of Transportation and Public Facilities
Mr. Pat Pourchot, Commissioner, Alaska Department of Natural Resources
Mr. Frank Rue, Commissioner, Alaska Department of Fish and Game
Ms. Marty Rutherford, Deputy Commissioner, Alaska Department of Natural Resources

JRE/dew