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Karen:

Please accept this letter as a summary of our past work pertaining to a grassroots base load LNG facility for the New Hampshire Gas Company (NHGC) of Keene, New Hampshire. As you requested, we also took the opportunity to update our cost estimates originally presented in the year 2000.

Background:

In July of 1998, Northstar Industries (Northstar) submitted a Conceptual Engineering effort for installing a new base-load gas supply for the New Hampshire Gas Company (NHG). NHG is currently operating a 740 BTU/CF propane/air.

NHG Gas Supply Data:

Number of Customers: 1,100
Annual US Gallons Propane: 1.3MM
Annual Dekatherms.: 120,000 dth/yr
Peak Day Consumption Dekatherms: 1,716 dth/d
Peak Hour Consumption dekathemrs: 71.5 dth/hr

Northstar examined two options in this initial effort: LNG versus Propane/air.

During this time, NHG and Northstar met with the Public Service Commission of New Hampshire (NHPSC) to discuss the design options for retiring the low BTU base load supply. The NHPSC expressed a strong preference for eliminating the low BTU distribution system and replacing it with a system that utilized gas of approximately 1000 BTU's per CF.

They were cognizant of the fact that the NHG system was rather unique in the US and a carry-over of the manufactured gas era of the 19th and early 20th centuries.

They recognized that NHG was diligently operating the system but preferred that a more traditional LNG system be employed in the long run and hoped that NHG could ultimately be connected to a gas pipeline. The NHPSC recognized the challenges of installing a grassroots replacement LNG system and converting all the customer appliances to 1000 BTU/SCF gas: nevertheless, this was the preferred option.

The work continued through the year 2000 with detailed engineering, cost estimates, meetings with the NHPSC and land acquisition efforts for the selected option of base-load LNG.

In 2000, it was estimated that the cost of an LNG plant was approximately $4MM and the cost of conversion of all the customers was approximately another $1MM. It would have required building the new plant and operating both plants while systematically converting customers to the new base load supply.

On an annual basis, this capital cost represented approximately $750K per year of additional cost to NHG current customer base. In the year 2000, the NHG was experiencing a deficit of about $100K/year. This additional $750K/year of debt service was deemed to be unrealistic.

Current Estimate:

If this project was undertaken today it is estimated that the cost of the LNG plant alone would be approximately $5MM. The cost of money and burden on the existing customers would be an additional $920K per year starting in 2010 if this effort were completed.

To our knowledge there are no imminent pipeline projects planned in close geographical proximity to the NHG system.

Unless there were state or federal grants available for converting this system to a more traditional 1000 BTU/CF option then it seems unlikely that this project can be justified.

Please feel free to call with any additional questions.

Sincerely,

Tom Quine
President
Northstar Industries, LLC.