



March 14, 2008

Mr. Ernest Hilton, Presiding Officer
c/o Ms. Terry Hanson
Board of Environmental Protection
17 State House Station
Augusta, ME 04333-0017

Re: Quoddy Bay LNG, LLC and Quoddy Bay Pipeline LLC
Applications L-23600-26-A-N, L-23600-TG-B-N, A 000975-71-A-N
W-9010-50-A-N and 401 Water Quality Certification/CZMA

Dear Mr. Hilton:

In its January 31, 2008 update letter, Quoddy Bay LNG, LLC and Quoddy Bay Pipeline, LLC (collectively “Quoddy Bay”) indicated that it would provide an additional update within six weeks regarding Quoddy Bay’s applications that are pending before the Board. This letter will provide the Board, as well as the interested parties on this docket, with information regarding the progress of the project over the last six weeks.

As with Quoddy Bay’s previous update, Quoddy Bay believes that it will need additional time to refine its project before moving it forward before the Board. The primary purpose in its need for continued time to prepare for the public hearing lies in the fact that results of ongoing discussions with LNG suppliers can yield changes to the project’s design. As the Board knows, Quoddy Bay designed its facility to be as flexible as possible as it pertains to the source of LNG supply (i.e. Btu content). Specifically, Quoddy Bay has included nitrogen mitigation in the event that the LNG supplied to the Quoddy Bay facility has a Btu content that requires dilution in order to comply with U.S. pipeline Btu standards. Developments over the past several months within the world LNG market have created an environment that may allow Quoddy Bay to eliminate or reduce the nitrogen mitigation that could result in corresponding reductions to the project’s environmental impact. Also, FERC is considering the revised tariff of Maritimes and Northeast Pipeline on gas quality specifications and otherwise considering the impact of LNG on pipeline gas quality, including issues such as maximum nitrogen content. These issues may have an impact on our facility and we believe that monitoring these issues will require additional time before a final position is possible.

Quoddy Bay originally considered suppliers of LNG with a Btu content that would have been within U.S. pipeline standards. This would have allowed Quoddy Bay to build its facility without nitrogen mitigation. As the project progressed, and through Quoddy Bay's continued pursuit to provide a reliable source of LNG to the New England market, it entered into discussions with a more diverse assortment of LNG suppliers. However, many suppliers serve a host of LNG markets that have different demands associated with the Btu content than the United States, such as Japan. These markets require higher Btu content natural gas, and thus suppliers do not want to lower the Btu content too much such that it would reduce the number of buyers that could use their LNG. A solution for countries with relatively lower Btu requirements is the use of nitrogen mitigation at the import facilities to dilute the gas so that it is consistent with U.S. pipeline requirements. As noted these are currently undergoing review at FERC.

Quoddy Bay is once again able to consider supplies that may not necessarily require nitrogen mitigation due to some significant developments over the last several months in the world LNG market. There are new LNG liquefaction projects that are interested in supplying LNG to the United States. Additionally, major suppliers have discussed partnering on LNG projects which has added a new dynamic to the world LNG market. The Maritimes and Northeast Pipeline has proposed a new tariff with a broader spectrum of the Wobbe Index than previously supplied further expanding possible supply options. Many power plant owners in Maine with combustion turbines are considering the use of a "Wide Wobbe" control system which can accommodate this broader spectrum.

If Quoddy Bay can secure a supply that would not require nitrogen mitigation, and if the broader tariff is adopted, then Quoddy Bay would be able reduce air emissions from the facility caused from the power generation necessary for the nitrogen equipment. Clearly, Quoddy Bay wishes to not only pursue these supply options that might reduce construction costs, but it also values the prospect of reducing its environmental impact prior to the public hearing.

Despite Quoddy Bay's ongoing commitment to improve and adjust its applications, we are confident that the project and its applications as they stand today are complete and are in compliance with current statutes. Nevertheless, Quoddy Bay believes discussions with supply options may produce outcomes that are in the best interest of not only Quoddy Bay, but the State of Maine and its residents as well. Because these ongoing discussions and negotiations have not reached a conclusion as of the date of this letter, the current status of the pending applications has not changed at this time.

In Quoddy Bay's December 14th letter, it suggested that April of 2008 would be an appropriate time to hold a pre-hearing conference. At that time, Quoddy Bay expected that its discussions with LNG suppliers would have concluded by April. However, LNG



market shifts over the last six months, such as the cancellation of the Baltic LNG project in Russia, have reshaped the LNG liquefaction market for North America and Western Europe. This has slowed the discussions but not fundamentally damaged them. However, this inevitably means that Quoddy Bay needs additional time to prepare for a pre-hearing conference, and therefore will plan for and suggests to the Board a June 2008 pre-hearing conference.

Quoddy Bay and its team continue to work through the data requests received from the Department of Environmental Protection (“DEP”). Without knowing with certainty the nature of the potential changes to the project design, Quoddy Bay would prefer not to make further design and site-related commitments in its data request responses. Therefore, Quoddy Bay cannot submit the responses to those data requests until the discussions with the potential gas suppliers are complete. Again, the Board is aware that the changes to the project will not be major, as they will not increase the environmental impact of the project, but they may alter the substance of the application nevertheless. Quoddy Bay fully understands that the responses must be filed with the DEP in enough time so that the staff and interested parties may have adequate time to review them prior to the initiation of the pre-hearing process.

As to Quoddy Bay’s FERC application, data requests have now been received from FERC on the project’s cryogenic technology as well as other project engineering issues. Responses to these data requests are also contingent upon current discussions with LNG suppliers and will be submitted once the discussions conclude and Quoddy Bay can confidently move forward on various engineering and project design issues associated with the data requests. Upon the Commission staff’s review of these eventual data responses, a Cryogenic Conference will be held as Quoddy Bay moves closer to a Draft Environmental Impact Statement.

Lastly, in Quoddy Bay’s January update to the Board, we indicated that representatives of Quoddy Bay had been conducting meetings regarding a potential mitigation opportunity that may become part of the project. These meetings are the foundation for Quoddy Bay’s ongoing process to determine the feasibility of that mitigation opportunity. Quoddy Bay’s engineers and consultants are evaluating the information gathered at those meetings. Currently, Quoddy Bay expects that it will be able to provide the Board and the interested parties with a summary of its findings by the end of April in Quoddy Bay’s next update to the Board.

Thank you for your continued consideration of the Quoddy Bay LNG Project. We will be happy to update you again at your request in six weeks.



Sincerely,



Brian W. Smith
Project Manager

Cc: Service List

