

November 16, 2010

An Open Letter to Shareholders of the Hess Corporation:

Millions of dollars of your money are being wasted by Hess management each year in pursuit of an ill-conceived and damaging Liquefied Natural Gas (LNG) terminal in Fall River, Massachusetts. It is now seven years since the Weaver's Cove project was first proposed to regulators. It will never see the light of day.

This project is *fatally flawed* for three reasons:

- It will not survive the state and federal permitting process.
- It faces broad-based, bipartisan political opposition that will confound, complicate, delay and ultimately kill the project.
- Recent developments in regional energy markets have undermined any purported public benefits of the project.

### Regulatory Risks

More than 50 different federal and state permits are required before the project can proceed. State and federal agencies have voiced serious concerns on a range of issues:

- *National Marine Fisheries Service (NMFS)*
  - According to the recently released minutes of an interagency meeting held in September 2009, NMFS indicated that *"the proposed mitigation measures for winter flounder identified in Weaver's Cove's new Mitigation and Monitoring Plan are **simply not appropriate** given that the entire fishery is on the verge of collapse and all fishing associated with this species has been closed in Southern New England. NMFS has taken the position that under the current circumstances **no impact on this species or its habitat is warranted...."***
- *National Park Service (NPS)*
  - In a letter to the Federal Energy Regulatory Commission (FERC) dated May 12, 2010, the director of the NPS states, *"On the basis of information available at this time regarding the proposed Weaver's Cove Offshore Berth project....I am concerned that the Department of Interior **will be unable to find this project consistent with the Taunton River Wild and Scenic designation** under the Wild and Scenic Rivers Act of 1968, as required by FERC."*
- *Federal Department of Transportation (DOT)*
  - The delay in issuing a draft environmental impact statement (EIS), as required by federal law, is partly related to the unique engineering and safety issues associated with the company's proposed 4.25-mile-long subsea cryogenic pipeline. In a letter to legal counsel representing the City of Fall River, Massachusetts, dated March 25, 2010, an administrator of the Pipeline and Hazardous Materials Safety Administration states, *"We affirm our previous determination that using the standard models....to calculate the thermal radiation and vapor gas dispersion distances for the Pipe in Pipe LNG Transfer System is **impracticable**, and that Weaver's Cove must develop, and submit to the Administrator for approval, an alternative model for calculating those distances."* Given the project's proximity to a major urban center, safety concerns related to vapor dispersion present a major obstacle to the permitting process.

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- *Federal Energy Regulatory Commission (FERC)*
  - o In a highly unusual move, FERC recently mailed a Weaver's Cove LNG project update to stakeholders in Massachusetts and Rhode Island. The document appears to distance FERC from the project, highlighting **18 significant concerns**, from project need and recreational boating impacts to habitat damage and impact on property values. The update also notes that the company **has failed to respond to a FERC Engineering Information Request** and, as a result, FERC *"will move forward with our analysis only when we have received a complete response."*
  - o The latest setbacks at FERC occurred on October 21, 2010. The agency **ruled against Hess on two critical issues**: Massachusetts has the right to determine whether or not the project is consistent with its coastal management program (see below), and that the Company has failed to conclusively establish who owns property adjacent to its planned Weaver's Cove storage facility. FERC left it to the Massachusetts courts to determine ownership of the so-called "wedge lot," which will determine whether the project satisfies federal DOT thermal radiation exclusion zone requirements.
  
- *Massachusetts Office of Coastal Zone Management (MACZM)*
  - o Under the Federal Coastal Zone Management Act, (CZMA), states have the authority to determine whether a proposed project is consistent with the state's coastal zone management plan. In a recent finding, FERC ordered that construction could not begin until Weaver's Cove satisfied all CZMA requirements. FERC noted that **"the commission will not issue any authorization to begin construction unless and until Weaver's Cove satisfies all CZMA requirements."** Given that Hess' original proposal failed to meet CZM requirements and that the latest proposal involves more dredging and a larger footprint on Mount Hope Bay than the original, it is doubtful that Weaver's Cove LNG will ever pass MACZM.
  - o Massachusetts has asserted that the Weaver's Cove project is inconsistent with existing enforceable regulations in Massachusetts waters, and therefore should not have received required federal permits. The U.S. Secretary of Commerce has recently upheld the Massachusetts coastal agency's prior determination of inconsistency, stating, **"The record establishes that the Project is not consistent with the objectives of the CZMA. While the Project furthers the national interest in a significant and substantial manner, the national interest furthered by the Project does not outweigh the Project's adverse coastal effects. The record also establishes that the Project is not necessary for purposes of national security. Given this decision, Massachusetts's objection to the Project operates as a bar under the CZMA to federal agencies issuing licenses or permits necessary for the construction and operation of the Project."**
  
- *Rhode Island Department of Environmental Management (RIDEM)*
  - o A portion of the dredging envisioned by Hess in the latest version of the Weaver's Cove project would occur in Rhode Island waters. RIDEM has asserted its authority to require the Company to obtain a permit before it can proceed with this dredging. **Hess has failed to submit to RIDEM** detailed plans of the project to allow the state agency to determine whether or not the proposed terminal's construction (including one of the largest private dredging projects in Narragansett Bay history) and operation would conform with state water quality standards. In a January 29, 2010, letter to Hess's legal counsel, representatives of RIDEM state, **"Please be advised that... prior to any dredging or construction of the in-bay berthing station, RIDEM requires that you obtain a RIDEM water quality certification and dredging permit for the revised project."** Given local political opposition and RIDEM concerns over dredging, it is highly unlikely that RIDEM will assent to the project's construction.

## Political Risks

***Bipartisan political opposition at the local, state and federal levels*** is grounded in the recognition that the costs and risks associated with the Weaver's Cove project overwhelm management's claimed benefits. The project:

- Threatens the economies of southeastern Massachusetts and Rhode Island, which depend heavily on recreation, real estate development, tourism and marine trades. This disruption takes the form of bridge closures and extensive security zones enforced by the U.S. Coast Guard around 70 or more LNG tankers each year as they travel 23 miles from the open ocean, past Newport, Rhode Island, through a narrow channel to Mt. Hope Bay off Fall River, Massachusetts. Bridge closures will disrupt traffic for tens of thousands of daily commuters and tourists.
- Imposes expense and management burdens on law enforcement and other first responders in coastal communities along the 23-mile route from Rhode Island Sound to Fall River.
- Sets back decades of efforts to clean up Mt. Hope Bay from pollution, restore important recreational and commercial fisheries and stimulate economic growth through on-the-water recreation and coastal real estate development.

On November 4, U.S. Senators Jack Reed (D-RI), Sheldon Whitehouse (D-RI), John Kerry (D-MA), and Scott Brown (R-MA) sent a bipartisan letter to the top members of the Appropriations Subcommittee on Energy and Water Development urging them to ***prohibit FERC from using federal funds to evaluate the terminal proposal***. Congressmen Barney Frank (D-MA) and James McGovern (D-MA) have also inserted a provision into a House appropriations bill by stating that ***"no funds made available by the act may be used to take any action to authorize the construction of any liquefied natural gas terminal or its infrastructure to be located within five miles of the city of Fall River, Massachusetts, or to authorize vessels carrying liquefied natural gas to serve such a terminal."***

The ***governors, environmental agencies and attorneys general*** of both Rhode Island and Massachusetts are actively working against the project.

***Trade associations and industry groups representing thousands of companies and tens of thousands of jobs have spoken out in direct opposition to the project***, including the Rhode Island Marine Trades Association, the Newport County Chamber of Commerce, the Rhode Island Saltwater Anglers Association, and the Newport and Bristol Counties Convention and Visitors Bureau.

## Market Risks

Additional domestic natural gas supplies and new LNG import capacity have radically altered the energy landscape in New England since the Company announced the first version of its Weaver's Cove project in 2003.

- In 2008 the first of ***three new LNG terminals*** serving the New England market accepted its first deliveries. Today four LNG terminals (***Suez Energy, Everett, Mass.; Canaport, St. John, New Brunswick; Northeast Gateway, south of Gloucester, Mass.; Neptune, south of Gloucester, Mass.***) deliver gas to the region during peak demand periods.
- In August 2010 an economist and LNG specialist with the U.S. Energy Information Agency (EIA) noted that, ***"There's enough capacity on the East Coast of North America to handle our expected imports of LNG for the next couple of decades."***
- According to the EIA Updated Energy Outlook 2009, New England's projected natural gas supply capacity from the four existing LNG facilities serving the New England market shows ***a surplus of 40 percent in 2012 and a surplus range of 25-30 percent over the next two decades***.
- The Massachusetts Department of Energy Resources (DOER) in a November 2009 filing with FERC contests Hess claims regarding the need for an additional LNG terminal serving the Bay State, stating, ***"DOER asserts that it is unclear to what extent, if any, Weaver Cove's LNG supply is needed either to meet the region's gas supply needs or to reduce fossil use in the region. DOER contends that***

*changes in the region's electricity and natural gas marketplaces have occurred since the Weaver's Cove project was first initiated and reviewed."*

- Natural gas production from shale discoveries in New York and Pennsylvania are flooding the New York and New England markets.
- Pipeline operators are rapidly expanding capacity to deliver these new domestic supplies to power generators in New York and New England.

The ***Achilles heel*** of management's Fall River LNG terminal proposal is its location: a densely populated region, an intensively used recreational waterway, an extraordinarily rich estuary of national ecological importance, a coastal economy dependent on tourism and public access on Narragansett Bay and a populace fiercely protective of the public trust.

Management has ***badly miscalculated*** its estimation of the time and expense required to obtain the permits for this project, misjudged how quickly competing projects and sources of supply would come on line, and underestimated the resolve of the citizens of Massachusetts and Rhode Island in opposing this misguided and damaging project.

***We urge you to oppose this project.*** In the parlance of the energy industry, Hess Corporation's Fall River terminal project is a dry hole. Call Hess LNG CEO Gordon Shearer at 212-997-8500 and urge him to withdraw the company's proposal. Your money is being wasted.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jonathan Stone', written in a cursive style.

Jonathan Stone  
Executive Director  
Save The Bay, Narragansett Bay