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## Inefficient regulation bane of energy industry

By Deborah Yedlin, Calgary Herald March 1, 2011

Despite low natural gas prices, and a bungled regulatory process, not everyone has given up hope on the Mackenzie Valley pipeline.

TransCanada's chief executive, Russ Girling, made that very point last week as he addressed a group invited by the University of Calgary's School of Public Policy that coincided with TransCanada's announcement of a \$1 million gift to the School.

The money establishes a TransCanada-sponsored program on energy policy aimed at improving the current regulatory framework not just in Canada, but also across North America.

Given the failed regulatory process associated with the Mackenzie Valley pipeline and TransCanada's indirect exposure to the project through its funding of the Aboriginal Pipeline Group, it's no small wonder the company has stepped forward.

The question is why something like this took so long getting off the ground.

Talk to anyone in the energy sector these days and if there is one issue where the concern is unanimous, it is on the subject of regulatory policy and efficiency.

And as the Mackenzie issue clearly shows, inefficient regulation comes with a huge economic cost -both in terms of the actual dollars spent, as well as missing the opportunity to generate a significant economic benefit.

When the pipeline was first put on the table, the shale gas boom had yet to manifest itself; there was arguably a window in which gas prices were high and financing was available. Today, in the current circumstance, it's tough to make the argument it makes any sense at all.

Not necessarily, according to Girling.

In fact, if one factor in the amount of natural gas consumed in the oilsands and the decline rates of both the conventional and unconventional natural gas plays, there is a case for not only MVP to go ahead -under a new commercial construct -*but also the Alaska pipeline.*

In the case of the MVP, one of the pieces to still fall into place is what the federal government will ultimately do in terms of a fiscal arrangement, if it does anything at all.

Let's think about that for a minute.

Throughout Canada's economic history there have been choices made -with government support -in order for certain infrastructure projects to proceed. We can cast back to the decision to build the national railway -which was also a condition of British Columbia entering confederation.

It might not have made economic sense at the time, but the leaders of the day were prepared to look beyond the horizon and move ahead with a project that has been critical to this country's economic growth.

Another such point was the Great Pipeline Debate in 1956 that ensued in parliament and centered the building of the TransCanada pipeline.

In order for the pipeline to proceed, the federal government passed a bill that authorized the building of the pipeline, as well as a loan to cover a portion of the construction. The result was the pipeline infrastructure Canadians depend on today.

Think back too, to when the Hibernia field was being developed offshore Newfoundland.

As Canada's first offshore oil project it was complex and expensive. And despite the involvement of the private sector, the federal government provided \$1 billion in grants, guaranteed \$1.7 billion in loans and later took an 8.5 per cent stake in the \$5.8 billion project, which it still holds. When it came on production in 1997, oil prices were at \$19 US per barrel; making money from Hibernia was still a question being asked. Today, of course, all this is moot.

Hibernia has made money, opened up other offshore opportunities and is estimated to contain more than twice the barrels originally thought.

Which brings us back to the MVP.

To be sure, there are many reasons that can be found for the MVP not to go ahead -be it cost, the current uncertainty for natural gas demand, shale gas supply or proximity to market. But it's not today that anyone is talking about. This is about 10 years -or more -down the road.

What if the federal government decided to reach back into its history and look at the precedents that were set in the last century and acknowledge that without the support of previous governments, the national railway, a trans-Canada natural gas pipeline or Hibernia's oil production might never have happened' were that the case this country's economy would likely have developed in a much different fashion.

Maybe, just maybe, the MVP is another such marker in Canadian economic history. It might not make sense in today's terms -but this is about the future, especially if one thinks in terms of energy security.

In establishing the regulatory and public policy program at the University of Calgary, TransCanada is looking to ensure the regulatory failure of the MVP, or other similar projects, does not happen again. For its part, it's time for the federal government to think beyond the next election -and support what's good for the country, not just shortterm political fortunes.

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[Contents](#) | [Previous Page](#) | [Next Page](#)

### TransCanada CEO Urges Changes To Regulatory Processes For Energy Projects

*By Pat Roche*

If North America is to meet its future energy needs, governments must move quickly to avoid the kind of regulatory quagmire that bogged down the proposed Mackenzie pipeline, **TransCanada Corporation** president **Russ Girling** warned on Friday.

The regulatory process for the megaproject -- which would connect Arctic natural gas to southern markets -- dragged on for more than five years before it was finally approved in December 2010.

But because economic conditions changed dramatically during those five years, the project remains stalled as the proponents -- who have already spent \$600 million -- try to negotiate a new "commercial construct" to make it economic, Girling said.

"That kind of delay cannot be accepted any more," Girling told a breakfast meeting sponsored by the **University of Calgary's** School of Public Policy.

At the breakfast it was announced TransCanada is donating \$1 million to the school.

The Mackenzie project's owners had expected the pipeline to be onstream by now. Instead, they're back at the negotiating table.

"Many of the critical North American infrastructure projects that we're working on are experiencing exactly that kind of delay -- years and years and years of undue regulatory process," Girling said.

Mackenzie partners include **Imperial Oil Limited**, **Exxon Mobil Corporation**, **Royal Dutch Shell plc**, **ConocoPhillips Company** and the **Aboriginal Pipeline Group**.

TransCanada provided funding for the Aboriginal Pipeline Group. In exchange, the pipeline firm earns acquisition and expansion rights and a financial return if the project goes ahead.

But where TransCanada is directly experiencing regulatory delay is in the United States where opponents are seeking to stop the company's proposed Keystone pipeline that would deliver bitumen from the Alberta oilsands to refineries in the U.S. Gulf of Mexico.

Girling warned that Canada is in danger of losing its competitive advantage as an energy producer because public policy and regulation hasn't kept pace with growing energy needs.

He believes three issues need to be addressed quickly:

- The need for a framework to ensure continued development of the oilsands. Global oil demand is expected to continue to grow through the next quarter century, and if Alberta's output doesn't keep pace, others will make up the shortfall.
- Correctly managing cuts in greenhouse gas emissions. Alberta oilsands produce only one-tenth of one per cent of global greenhouse gases. So curtailing the province's bitumen output wouldn't have much environmental benefit, but the economic harm would be substantial.
- The **International Energy Agency** estimates about \$6.1 trillion will need to be spent on new energy infrastructure in North America over the next 25 years. But opposition from landowners, communities and interest groups has grown substantially, and increased the time and cost of regulatory processes.

Girling cited the Mackenzie gas project as an example of the latter. He believes the Mackenzie gas pipeline (and the proposed Alaska gas pipeline) will be needed despite the current glut of shale gas that has pushed

Canadian gas prices below \$4 an mcf.

But for the time being, he said an opportunity has been lost to invest in infrastructure, improve energy security and create jobs. He blamed the regulatory process for the Mackenzie project being left in limbo.

"If these process deficiencies aren't addressed ... investments aren't going to be made, and that critical infrastructure is not going to get built. And we're going to pay the consequences of that in years to come," Girling said. "So in order to help us do our jobs, and to help regulators do their jobs, we need sound policy and an efficient regulatory process."

To enable this to happen, the TransCanada boss made three suggestions:

- Provide the guidelines for what is acceptable (and what is not acceptable) before big bucks are wasted on engineering and design. And before this can happen, Canadians and Americans must decide what they want.
- Regulatory processes must be led by people with the capacity and experience to make difficult decisions, to make tradeoffs and to separate fact from fiction.
- Regulators must be accountable for their predetermined schedules.

TransCanada's \$1 million commitment to the university's School of Public Policy is a multi-year donation to the school's TransCanada Corporation program in energy policy and regulatory framework.

"This is a five-year program offering a forum where policy makers, regulators, industry, consumers, community leaders and research organizations can study and discuss, without prejudice, innovative solutions to complex issues," University of Calgary president **Elizabeth Cannon** said in announcing the funding.

"The program is designed to encourage an ongoing forum and effective dialogue among these groups on policy alternatives that can measurably increase Canada's sustainable prosperity through responsible development of its huge energy potential," Cannon said.

[Contents](#) | [Previous Page](#) | [Next Page](#)

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