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Mackenzie Project Proponents Eye Renewed Talks With Ottawa

By Elsie Ross

Talks are to resume between the Canadian government and the proponents of the proposed Mackenzie natural gas pipeline who are seeking federal support, one of the partners said Wednesday.

"The north is truly ready and waiting," **Bob Reid**, president of the **Aboriginal Pipeline Group**, told the **Canadian Institute's** Arctic gas symposium in Calgary.

Within the next couple of weeks, the cabinet is expected to approve the \$16.2 billion project which in December received **National Energy Board** approval, he said. The next step will be to conclude a fiscal framework, hopefully in the first half of this year. The objective would be to make it possible for the APG to finance its one-third share of the \$11.3 billion pipeline and to ensure it is economic for its partners, he said.

Responsibility for the pipeline, which had been held by Environment Minister **Jim Prentice** until his recent resignation, is now in the hands of Indian Affairs and Northern Development Minister **John Duncan**. The pipeline, operated by **Imperial Oil Limited**, will transport up to 1.2 bcf per day of gas from the Mackenzie Delta along the Mackenzie Valley to Alberta.

The United States government is providing a US\$18 billion loan guarantee for TransCanada and **Exxon Mobil Corporation's** proposed 4.5 bcf per day Alaska gas pipeline, Reid noted.

In Canada, the most important support the federal government could provide would be some form of guarantee that would lower the cost of capital, the largest single component in the shipping toll, to equivalent to a Triple A rating, said Reid. "We want to have attractive tolls to make sure we can attract incremental shippers in the future to this project."

An improvement to a Triple A rating from A rating would reduce the toll by about \$1.50 (per mcf) which is "huge," Reid later told reporters.

"We are not looking for a subsidy," he emphasized. With project partners which include Imperial, Exxon Mobil, **Conoco Phillips** and **Royal Dutch Shell**, the risk of the federal government having to make good on any loan guarantee is very low, Reid suggested.

As a second means of support, the federal government possibly could offset some of the lengthy regulatory and costly infrastructure expenses that proponents would not face if they were building a pipeline in southern Canada, he told the conference. In Alaska, the state will reimburse TransCanada Corporation and partner Exxon Mobil's Alaska Pipeline Project up \$500 million towards the cost of preparing a regulatory application to the **Federal Energy Regulatory Commission** (FERC).

Bob McLeod, minister of industry, tourism and investment for the Northwest Territories government, also emphasized the need for the federal government to become more supportive and demonstrate that support in a tangible way if the \$16.2 billion Mackenzie gas project is to become more than a concept.

"Currently this federal engagement is lacking," he said. "Northern leaders are saying the federal government is not doing nearly enough to support development in Canada's north or development of Arctic gas," said McLeod. "This is in stark contrast to the United States government which continues to support the advancement of the Alaska natural gas pipeline in a tangible way."

Financing the Mackenzie project will be a huge task and the Canadian government must ensure that the aboriginal partners are able to obtain the best possible financing rates, he said. McLeod called on the federal government to seriously re-engage with the proponents and conclude a quick and satisfactory regime for the Mackenzie gas project as soon as possible.

Once the Mackenzie project proponents have a fiscal regime, agreement they will restart project activities which were curtailed in January 2007 because of the slow pace of the regulatory process, said Reid. These activities will include detailed engineering, field work, and a more accurate cost estimate, leading to a decision in 2013 on whether to proceed with the pipeline.

To achieve first gas in 2018, everything has to go perfectly and "so far in this project that hasn't happened," the conference heard. He acknowledged that it is a tight schedule and because of the winter-only construction, losing only a couple of months could result in a year's delay.

Responding to a question, Reid said that while the producers are fully committed to the project, the project will not restart until an agreement with Ottawa has been finalized.

Another speaker, **Larry Persily**, federal co-ordinator for Alaska natural gas transportation projects, agreed with Reid that both the Alaska and Mackenzie projects have a chance because in the long term the market will need more gas. However, northern gas projects will also have to be designed, and will have to be financed, to compete in the North American market, he said.

In Alaska, teams for both TransCanada's project and the **BP-ConocoPhillips Denali** project are continuing to negotiate commercial terms with potential shippers following open seasons last year, the conference heard.

If there are precedent agreements this year and the APP files its application with FERC in October 2012, Denali says it would file its application in 2013, said Persily.

First gas for both projects would be in 2020. "That assumes everything goes perfectly."

As part of its agreement with the state, TransCanada is required to file its FERC application even if it has no shippers. Because of that, APP is planning active field seasons this year in Alaska and Canada while Denali is holding back to see how commercial negotiations go, he said.

"We are not going to have two pipelines from Alaska . . . we'd be happy to have one pipeline from Alaska," said Persily. "If there is ever going to be an Alaska pipeline project, somehow there is going to have to be a commercial deal between the producers on the North Slope (the shippers) who will provide the financial underpinnings and TransCanada probably."

The APP has been meeting with federal officials trying to figure out what the permitting agencies will require and has planned open houses through Alaska and Yukon in March and April to listen to community concerns and provide their route map.

The company recently has also stepped up its work with a federal agency, the **Pipeline and Hazardous Material Safety Administration**, which is paying closer attention to safety following several recent pipeline explosions, he said.

"Safety is certainly a concern," said Persily.

The Alaska Pipeline Project, which initially will transport 4.5 bcf per day of gas, will be a 48-inch high pressure line operating at 2,500 pounds per square inch crossing under, over and next to an oil pipeline at many locations along the route.

There's also a lot of wet ground to cross. There are 70 major lakes and rivers and 2,400 crossings over or under small streams and creeks between Alaska and the terminus in northern Alberta.

In Canada, TransCanada has until next year to show the Canadian government it can fulfill all the conditions imposed on the permit for the Foothills Pipeline approved under the Northern Pipeline Act in 1977.

The legislation which set up the co-ordination office also imposed some very tight regulatory deadlines for FERC in approving APP's environmental impact statement, said Persily. Once it receives a complete application from the company, the commission must complete a draft environmental impact statement within 12 months and then has six months to make it final and another two months to issue an order.

While there is no deadline for Denali to submit its application to FERC, the same EIS deadlines apply to the company.

One of the major issues will be air quality, said Persily who noted that the Alaska pipeline compressor stations will be affected by the **Environmental Protection Agency's** extensive regulatory process on greenhouse gas and other emissions.

Alaskans are becoming impatient waiting for a pipeline and some are looking for alternatives such as a line from Prudhoe Bay to Fairbanks to serve in-state demand, he said. "It's not economic and would require a multi-billion state subsidy to deliver gas at a reasonable price," said Persily. "I don't think it will be built but you have more Alaskans talking about it."

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