

MacKenzie Valley pipeline faces setbacks

News of The North
Yellowknife, N.W.T.

It is becoming increasingly apparent that Canadian Arctic Gas Pipeline (CAGPL), should it receive the go-ahead from both the Canadian and American Governments to build a MacKenzie Valley pipeline, will not be able to meet its planned July 1, 1981 start-up date. A delay of at least one year in the completion of the project now seems unavoidable.

A setback in CAGPL's schedule could result from any of the following three factors:

1) A question mark on whether a MacKenzie pipeline can be financed will remain as long as land claims are unresolved. J. Ross LeMesurier, vice-president of Wood-Gundy Ltd., one of Arctic Gas's financial advisors, recently stated before the National Energy Board that "lenders and public equity holders are going to have to be satisfied that the land claims have either been resolved, or that any risk to the project from lack of complete resolution of the land claims has been reduced to a minimum acceptable level." It

is not clear, however, that this issue will be resolved quickly: Inuit Tapirisat of Canada recently withdrew its land claim proposal for further redrafting; the Indian Brotherhood submitted its proposal only in late October; finally, the government has yet to appoint a Northwest Territories Land Claim Negotiator.

2) Another step has been added to the decision-making process as a result of Arctic Gas's request for backstop financing guarantees from both the Canadian and American governments. Such guarantees could only be extended after the passage of a bill in both Parliament and the US Congress and could not be expected to be offered until both governments have made their decision on the pipeline.

Arctic Gas now anticipates a recommendation from the NEB by July, 1977 and a cabinet decision by September 1. Since a decision in the US may not become final until November 1, it is unlikely that a bill could be passed both in Canada and the United States in time to allow CAGPL to establish proof of financing in early 1978 (the target date CAGPL has set itself to remain on schedule). Lenders will not commit any funds until the Government guarantees are in place.

Although Arctic Gas's vice-president of finance, J.R. Yarnell, believes CAGPL could still meet its financing and construction timetables if final proof of financing were established in mid-1978, he expressed reservations as to the practicality of such a situation and suggested that it could lead to a year's delay in the pipeline's completion.

The inherently contentious nature of a bill extending financial support to a project such as CAGPL would make its quick passage unlikely. The potential parallels with the 1956 Trans Canada Pipe Line debate, which contributed to the Government's defeat in the following year's election, would be expected to add to the Federal Government's caution in steering such a bill through Parliament.

3) In a previous phase of the NEB hearing, the Mackenzie

Delta producers, Imperial, Gulf and Shell, testified that, in order for them to complete the construction of their gas processing plants by mid-1981, the NEB would have to issue a Certificate of Public Convenience and Necessity to Arctic Gas by mid-1977. Assuming the Board did grant a conditional certificate by that date, it is not clear that the producers would commit themselves to the one billion dollar investment implied by the gas plants before the financial viability of a pipeline had been demonstrated. Even the passage of a bill providing for guarantees immediately after both Governments had made their decision — an optimistic assumption — would likely postpone construction of the plants because of the long lead times required in ordering supplies.

A one year delay could have a significant impact on the cost of the project would contribute to the present uncertainty about its financial viability. It would also strengthen Foothills Pipe Lines' competitiveness. Foothills has based its application on a 1982 start-up date and has not demanded Government guarantees. In the United States a delay in CAGPL's projected completion date could increase the attractiveness of both the El Paso and Alcan alternatives.

Arctic Gas is asking the Canadian and American Governments for two kinds of guarantees: (a) a completion assurance to satisfy potential lenders that the project would be completed (and, therefore, able to repay its

debt) despite the possibility of substantial cost overruns; (b) an interruption insurance to cover the tariff obligations of the gas shippers using the CAGPL system in the event of a prolonged outage in service. Although this latter occurrence appears remote, the risk of large cost overruns and hence, Government involvement under a backstopping arrangement cannot be dismissed as similarly improbable. There are too many examples of current energy projects which have shown rapid cost escalation (the Syncrude tar sand plant, the James Bay hydroelectric project, the Alyeska oil pipeline, perhaps being the best known) to assume that CAGPL would be an exception to this rule.

Not all experts share CAGPL's confidence that the project can be completed within budget. The Green Construction Co., a US firm specializing in large construction projects, conducted three studies analyzing the problems, costs and schedule difficulties that Arctic Gas could encounter. Green concluded that CAGPL could not be completed within schedule and would incur a cost overrun of more than 40 percent.

Arctic Gas suggests that a ceiling of \$2 billion be placed on possible Government participation.