



Statements and Speeches

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THE ALASKA HIGHWAY GAS PIPELINE

Remarks by the Honourable Mitchell Sharp, Commissioner of the Northern Pipeline Agency, to the Canada-United States Energy Issues Seminar of the Washington Council on International Trade, Seattle, March 23, 1981

As I indicated in my brief opening remarks this morning, I am delighted to have the opportunity to participate in this seminar on Canada-United States energy issues and honoured to have been asked to serve as general co-chairman for the occasion.

Having been involved in one capacity or another with many energy issues affecting our two countries over a period of some three decades, I must confess that I resisted the temptation to cast a wide net in my remarks this afternoon only with considerable difficulty.

However, since others have been or will be dealing with many particular energy issues of concern to Canada and the United States during the course of today's conference, I will confine my remarks to the Alaska Highway Gas Pipeline System. That in itself is certainly a broad enough topic, involving as it does not only the largest co-operative energy project ever undertaken by two nations but also a project that in so many aspects is central to the kind of challenge with respect to energy that confronts our two countries at the present time.

As with so many other major undertakings of the past, this great project has faced its full share of problems and the usual derision of doubters and detractors. The prolonged deadlock in Congress of 1977-78 over U.S. natural gas pricing policy, the extended time required to resolve a number of complex regulatory policy issues, and the earlier stalemate between the sponsor of the pipeline in Alaska and the Prudhoe Bay gas producers all served to cause delays. As a result the scheduled completion of the entire project has been set back nearly three years — from the original date of January 1983, to late 1985.

To put the case in perspective, let me point out that from the very beginning no one who had any close involvement had any illusion that seeing this project through to its successful completion would be an easy task. How could it be otherwise, considering the very immensity of the undertaking, the massive challenge of privately financing it, and the critical need at every stage for the close co-ordination of the effort on both sides of the border of the two federal governments and their regulatory agencies, dozens of state and provincial governments, and the multiplicity of private interests that provide the real driving force behind the venture?

The fact of the matter is that, notwithstanding the difficulties and delays to which I referred earlier, substantial progress has been made in getting on with the job. Indeed, construction has already begun on the southern segments of the project, which com-

Substantial
progress

prise approximately one-third of the entire pipeline for the initial purpose of transporting some one billion cubic feet a day of surplus Canadian gas to U.S. markets in the mid-west and western states.

In Canada, the building of the western leg is virtually completed. Construction of the connecting links in the United States is well under way, although I gather it has been set back somewhat by the early onslaught of spring thaws and resulting seas of mud. Within the next several weeks, construction of the 1,200 miles of pipeline making up the first stage of the eastern leg in both countries is due to get under way, with completion scheduled for the fall of 1982.

Events pre-authorization

As many of you here today will be aware, the decision by the Canadian government last July to authorize this first-stage construction of the Alaska Highway Gas Pipeline was a matter of some controversy in our country. Since Canada's basic interest lay in the completion of the entire system from Prudhoe Bay to the lower 48 states, in keeping with the bilateral agreement between the two governments of September 1977, it was contended in some quarters that no part of the system should be allowed to commence in Canada until unequivocal assurance was forthcoming that the whole project would be completed expeditiously.

Indeed, the Canadian government itself needed to be satisfied that construction of the whole system would proceed on a timely basis and in the end what was at issue was the degree of assurances from the United States that would be reasonable in all the circumstances.

In weighing the issue, the government of Canada took account of four factors. The first was the agreement of the previous month between the Alaska pipeline sponsor and the Prudhoe Bay producers to share expenditures of some \$500 million or more to complete final design and engineering of both the pipeline and gas conditioning plant in Alaska, together with their undertaking to join forces in developing a workable plan for financing construction of the system in that state.

The second factor was the joint resolution approved unanimously by the Senate and House of Representatives in late June and early July. The key section of that resolution stated "that it is the consensus of Congress that the (Alaska Natural Gas Transportation) System remains an essential part of securing this nation's energy future and, as such, enjoys the highest level of Congressional support for its expeditious construction and completion by the end of 1985".

The third factor was a letter from President Carter to Prime Minister Trudeau on July 17. In that letter, President Carter said, and I quote his words, "I am able to state with confidence that the U.S. government now is satisfied that the entire (Alaska Natural Gas Transportation) System will be completed." The President went on to say that "the United States' energy requirements and the current unacceptable level of dependence on oil imports require that the project be completed without delay".

Finally, the Canadian government took account of the fact that not only would

first-stage construction of the southern segments of the pipeline yield significant economic benefit to Canada, but it would considerably facilitate completion of the remaining parts of the project.

I have taken the time to recall this sequence of past events because it has some bearing on the renewed spate of scepticism that has been expressed from some sources on both sides of the border within recent weeks.

Private financing

During his visit to Ottawa a few weeks ago, President Reagan addressed both Houses of the Canadian Parliament. In the course of his remarks, he observed that Canada and the United States had made progress on matters of great mutual importance. "Our governments," he stated, "have already discussed one of the largest joint private projects ever undertaken by two nations — the pipeline to bring Alaska gas to the continental United States. We strongly favour prompt completion of this project based on private financing."

Notwithstanding the strong commitment to the pipeline which he expressed, President Reagan's reference to the private financing of the project touched off something of a hue and cry from those who interpreted his remarks as representing something less than an absolute guarantee that all would move ahead as planned.

For my part, I have always taken the view that there is no such thing on this earth as an absolute guarantee of anything. Beyond that, however, those who took this position apparently were never aware or have since forgotten that from the beginning it was the firm intention of both countries that it should be privately financed without government assistance. That is a stated requirement of the U.S. law. Furthermore, one of the reasons why the sponsor of the Alaska Highway pipeline project was chosen to do the job was because, unlike two competing proposals, they maintained that they could complete it without government aid.

Earlier in my remarks I referred to the undertaking between the Alaska Pipeline sponsor and the Prudhoe Bay gas producers to join forces in developing a financing plan for the Alaskan system. During the intervening months, these two groups, along with their financial advisors, have been working intensively to develop just such a plan for securing the private debt and equity capital required to finance the project. I understand that within the near future they expect to be in a position to begin discussions of that plan with the financial community.

The contention that the U.S. government should declare its readiness to provide some form of assistance in the event that private financing proved not to be available without it, is, to put it charitably, nonsensical. Not only would this amount to advocating a course that is completely contrary to existing U.S. law, it would be the most certain way of ensuring that entirely private financing would not be available. Months of work aimed at developing purely private funding would go out the window and, at the very least, many more months of delay encountered. After all, what lender would assume the normal risks inherent in a project of this nature if he thought for one minute that the government could be enticed into saving him riskless?

Costs not known

The doubts that have been raised with respect to the project principally turn around the question of the ultimate cost of the pipeline and the resulting marketability of the gas that will be shipped through it.

I can not tell you today what the cost of the pipeline will be. Obviously the single most costly part of the system — and the part that poses the greatest degree of uncertainty — is that for the pipeline and conditioning plant in Alaska. I understand that both the Prudhoe Bay producers and the Alaska pipeline sponsor have confidence in and are comfortable with the detailed cost estimates that are currently being developed in conjunction with the final design and engineering work currently under way for the Alaskan system.

In considering the feasibility of the Alaska Highway Gas Pipeline project, I think it is essential to keep certain key elements in perspective. A series of critical developments that have taken place since the emergence of the Organization for Petroleum Exporting Countries as a major force on the world stage, and the continuing uncertainties surrounding offshore oil supplies, have made this more than just an ordinary pipeline, more than just a pipeline to be considered in commercial terms alone.

This pipeline will provide access to some 26 trillion cubic feet of gas already discovered on the North Slope of Alaska. That represents 13 per cent of the total of established U.S. gas reserves and the largest and most important single source of new energy supplies available to the lower 48 states within the foreseeable future.

Securing access to that gas is vital to the realization of the national interest of the United States in substantially reducing its reliance on uncertain offshore energy supplies. Congress clearly had that consideration very much in mind when it stated in its resolution of last summer that the project "remains an essential part of securing this nation's energy future...".

In Canada, we share the same national objective of reducing our own, less critical dependence on foreign energy supplies. The Alaska Highway pipeline represents one means of achieving that goal, providing us with the means of access to our own established reserves in the Mackenzie Delta and those that appear to be available in significant volume offshore in the Beaufort Sea.

Incentives for switching from oil

But we have also adopted a number of other measures as part of our new national energy program that are aimed at encouraging conversion from consumption of scarce petroleum supplies wherever feasible to other forms of energy that are more abundant. The Canadian government has earmarked \$500 million in funds to support the extension of our existing gas pipeline system from Montreal eastward through Quebec and into the Maritime provinces and westward to Vancouver Island in British Columbia. It has provided for grants of up to \$800 *per* unit to encourage conversion of oil-burning furnaces to gas, electricity or other practical alternatives. And the government has also adopted a domestic pricing policy that will provide a further incentive to Canadians to switch from oil to natural gas consumption.

Economics

Against that perspective, I would like now to make a few comments on the economics of the Alaska project — a consideration which I do not suggest for one moment can or should be ignored.

As I indicated earlier, I cannot say at present what the total cost of the system is likely to be nor what is the likely cost initially of the gas that flows through the system to markets in the lower 48 states. What needs to be borne in mind, however, is that the cost of that gas needs to be related not to current U.S. gas prices or current prices of alternative petroleum supplies such as heating oil, but to the price of alternative fuel sources — a substantial proportion of them imported from abroad — that may prevail in 1986 and beyond following completion of the Alaska Highway pipeline.

Having said that, let me quickly acknowledge that it is entirely possible that for a few years after gas is ready to flow from Alaska its cost could exceed that of competing alternative supplies. Indeed, that possibility has always been foreseen. It was for that very reason that U.S. authorities provided for the rolling in of Alaskan gas costs with that of other supplies from the lower 48 states as a means of providing for its marketability.

Now I am well aware that concerns have been expressed that this kind of cushion could be removed if the new Administration proposed — and Congress approved — the full deregulation of gas prices. Even if this were to happen, however — and at the moment it is entirely hypothetical — I am confident in my own mind that the powers that be in the United States are sufficiently innovative to devise alternative means of coping with what at most would be a short-term marketing problem.

What it is essential to understand is that a substantial proportion of the cost of the gas initially delivered to U.S. shippers in the lower 48 states will reflect the initially high cost of transporting it from Prudhoe Bay to markets in the South. But as the capital costs of the pipeline become depreciated (which in the case of the southern segments will commence in 1981-82), the costs of transporting Alaskan gas will begin to decline quite dramatically. It is for this basic reason that virtually all the assessments I have seen have concluded that over the lifetime of the project the cost of gas from Alaska will almost certainly be substantially lower than alternative fuel supplies available to the United States in the years ahead.

Before I conclude my remarks, I would like to reiterate my conviction that the undertaking of this massive project is both economically sound and very much in keeping with the national interest of both the United States and Canada in reducing our dependence on insecure foreign petroleum supplies. I have no doubt that over the next several months there will be some major hurdles to overcome. But I am confident they will be overcome simply because of the determination evident on all sides to ensure that they are.

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