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Kitimat savours victory in pipeline decision

Deepwater port and surrounding terrain tip scale away from Prince Rupert

By Monte Stewart - Business Edge
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Kitimat has won the nod over Prince Rupert as the West Coast terminal for two proposed pipelines.

Rivals Terasen Pipelines Inc. and Enbridge Inc. both say they favour Kitimat as the deepwater port that will ship petroleum from the Alberta oilsands to the U.S., China, Japan and other overseas ports.

"It's a geographical issue and a pipeline-length issue," Terasen president Rich Ballantyne told Business Edge after speaking at the recent Resource Expo '05 Aboriginal business conference at Vancouver's Sheraton Wall Centre. "It's longer to go from Prince George to Prince Rupert than it is (from Prince George) to Kitimat."

Calgary-based Terasen Pipelines, a subsidiary of Vancouver's Terasen Inc., is proposing to build a pipeline, known as the TMX project, to the north coast as part of an expansion of its existing Trans Mountain line between northern Alberta and the B.C.-Washington border.

Enbridge wants to build a West Coast terminal as part of its \$4-billion Gateway pipeline project between Strathcona County near Edmonton and Kitimat.

"Another part (of the reason for choosing Kitimat) is the last number of miles along the Skeena Valley are very difficult pipelining country - very steeply incised valley, rock walls and stuff like that - whereas the valley that runs between Terrace and Kitimat is much wider, more easy to maintain and operate the pipeline through and construct it," said Ballantyne.

An existing gas pipeline between Terrace and Prince Rupert regularly experiences shutdowns due to landslides, "but it's not an insurmountable problem," said Ballantyne.

"(But) if you get the same thing in (an) oil pipeline, it's a disaster. We want to make sure that no disasters happen."

Enbridge's 1,150-kilometre Gateway project, which is being co-ordinated by wholly owned subsidiary Gateway Pipeline Inc., includes a parallel secondary line that would ship imported condensate - a mixture of petroleum byproducts and chemicals that dilutes bitumen and enables it to travel in pipelines - to the oilsands from Kitimat.

Gateway officially confirmed its choice of Kitimat last week as it filed a preliminary information package (PIP) with the National Energy Board (NEB), other federal departments involved in regulatory reviews of the project and the Canadian Environmental Association.

"Key factors in the decision to select Kitimat as the end-site location for the pipeline were the deep-water port and abundant industrial land," said a company news release.

The PIP is not a formal regulatory application. It's intended to give Ottawa a heads-up on the forthcoming application to the NEB. Gateway intends to

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file the NEB application in the second quarter of 2006.

If all goes according to plan, construction will begin in 2008 and the pipelines will begin operation in 2010.

Gateway's oil pipeline would be 30 inches in diameter - larger than conventional pipelines - and move 400,000 barrels per day (b/d).

The condensate line would be 20 inches in diameter and ship 150,000 b/d to the oilsands.

Prince Rupert Mayor Herb Pond says the decision to go through Kitimat will cost his city 30 to 50 jobs.

Still, he welcomes the terminal being placed in Kitimat because it will benefit the entire North Coast region.

"We obviously hoped that it would come our way but these things have to be done on a business case," Pond said after speaking at Resource Expo '05. "Now, they're going to have significant operating issues in the (town) of Kitimat, but clearly (Enbridge has) balanced that."

The pipeline expansions are slated to coincide with several new oilsands projects that will come onstream over the next decade. But the pipelines are subject to available financing, decisions on who would cover the costs of the lines (pipeline builders or oil and gas producers), orders for shipments, regulatory approvals and several other factors, including First Nations' consent.

Many industry observers believe there is not enough demand to warrant the construction of two pipelines, so Terasen and Enbridge are essentially in a race to see who can get the necessary approvals and shipping contracts first. In case it does not manage to build a terminal on the North Coast, Terasen has also proposed looping its existing Trans Mountain line between northern Alberta and Burnaby.

But the West Coast route poses economic challenges because the sparsely populated region is not a primary market.

China's growing demand for oil and gas is driving the development - for now.

"The primary market is the midwestern United States, southern Ontario, those kinds of (places)," said Terasen's Ballantyne.

"The Pacific coast markets are a secondary market, so we're trying to get people to commit to that secondary market that everyone thinks we need but doesn't necessarily want to be the first one to jump in. But producers recognize the importance of it, so they'll be supporting us as we take the staged (construction) approach - little by little."

The wildcard, he added, will be the Chinese government. "Will the Chinese step up and actually support the projects? Which will make everybody in Alberta happy - happy as hell because they don't actually have to make the (financial) commitments themselves."

Terasen is holding discussions with China Petroleum and Chemical Corp., more commonly known as Sinopec Corp., PetroChina, and the Chinese National Petroleum Corp. (CNPC). Sinopec already has an interest in a project in northern Alberta that's under development while CNPC has partnered with Calgary-based MEG Energy Corp.

"I think at the end of the day the Chinese are very astute," said Ballantyne. "They can buy oil from anybody in the world even if they do invest in Canada. They want to preserve their options and underwriting a multibillion-dollar pipeline probably isn't, in their minds, the thing that they want to do. So I think ultimately, like most other developments in North America, as you look at pipelines to match up supply and market, it's the producers who have the real value and material that will have to pony up and support the projects."

In April, Enbridge signed a memorandum of understanding on a shipping contract with PetroChina International Co. Ltd.

Terasen, which was recently acquired by U.S.-based Kinder Morgan, will also build more pipelines in Washington state over the next few years to accommodate increased production from the oilsands, expand its current pipeline infrastructure just south of the border and meet Washington's market demand.

"If you look at the development of markets, we're already connected to Washington state," said Ballantyne. "It's a refinery and capacity market that's more than all of Western Canada put together."

"We do supply 15 to 20 per cent of their needs, so as Alaska production

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declines, it's a logical next place to sell the oil."

Meanwhile, Prince Rupert may still get a liquefied natural gas (LNG) terminal.

Westpac Terminals Inc. is proposing to build one there, provided it gets the financing and customer contracts it needs. But Calgary-based Westpac is in a race of its own with Galveston LNG that, through wholly-owned subsidiary Kitimat LNG Inc., is proposing to build an LNG terminal in Kitimat.

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