What happened to the real Northern Gateway?

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It took nearly 40 years, one national inquiry and thousands of hours of negotiations, but in 2011 the National Energy Board finally approved the Mackenzie Valley gas pipeline. By then, there was just one problem: nobody really wanted to build it anymore. A massive pipeline that was once described as "the biggest project in the history of free enterprise" had been waylaid, ironically enough, by free enterprise. Gas prices were too low to justify the expense or generate a reasonable return for investors. And yet, there's a movement afoot, driven by both government and industry officials, to build another major oil project in the North. Who said Canadians weren't capable of optimism – or irony?

"The real value of a northern pipeline would be that it would allow us to develop our own resources on and offshore. Our own resources are estimated to be 10 billion barrels of oil and 92 trillion cubic feet of natural gas. [And] we need development to survive."

– Northwest Territories premier Bob McLeod
The reason for the renewed interest, of course, is that nobody seems able to get a pipeline built in the south. With three major proposals now stalled, the Alberta government has invested in several pre-feasibility studies to look at other ways to get the province's oil to market. In April 2013, it tasked Canatec, a sea-ice surveillance and shipping company, with providing a pre-feasibility study

on transporting bitumen from Fort McMurray to the Arctic for shipment to Asia. The report, released last fall, evaluates the idea in the context of an integrated energy, transportation and economic corridor that would open up Canada's North.

The Arctic Energy Gateway needs to be considered not just as an export route for Alberta bitumen but the key to catalyze the development of massive petroleum resources in the western Arctic," the report says. "These include: gas deposits in British Columbia, shale gas and shale oil in the Norman Wells region, Mackenzie Delta onshore gas, Beaufort Sea offshore oil and gas. In addition, major mining projects are planned in this region that either require or will benefit from the development of better land and marine logistics infrastructure."

With this bigger picture in mind, Canatec sets out three scenarios for getting bitumen to market.

The first is a pilot project to send dilbit by rail from Fort McMurray to Hay River, and, from there, by barge up the Mackenzie River to Tuktoyaktuk. The bitumen would be stored at Tuktoyaktuk until it could be loaded onto open-water tankers operating in the summer, and taken to market in Asia, Europe, or eastern Canada. The second scenario would use the existing Norman Wells pipeline and incorporate it into a line from Fort McMurray to the Mackenzie Delta, which would be a much faster way of transporting dilbit to Tuktoyaktuk. The third scenario would involve year-round production exported through a new 2,400-kilometer pipeline from Fort McMurray to Tuktoyaktuk, a pipeline that would move up to 100,000 barrels per day.

The report claims that all of the proposed routes are technically feasible, but it does not address their potential costs. Developing an Arctic energy gateway would be an expensive and complex undertaking, involving multiple governments, industries and aboriginal groups. And, it would be a long process. "This report is a 'what-if' scenario," says Canatec president Chris Hill. "There would have to be more than one megaproject to accomplish what is described."

No oil producers ever contacted Canatec about the report, Hill says, although this does not surprise him. In his view, the major players are all preoccupied and heavily invested in seeing current pipeline projects come to fruition. Participating in a new "Arctic Energy Gateway" is not necessarily top of mind for most, particularly with oil trading below $60 a barrel. "Producers have their own plans right now," Hill says.

If there's an upside to that for proponents of a northern outlet for Canadian oil, it's that those plans increasingly involve rail. The movement of oil by rail has dramatically increased in the last few years as pipeline capacity has failed to keep pace with production. And, there is another proposal now being considered to take bitumen by rail from Alberta to Alaska. Vancouver-based Generating for Seven Generations, (G7G) is looking to build a 2,400-kilometer rail line from Fort McMurray to Valdez, Alaska, that would carry 1.5 million barrels of oil every day. The appeal of the project is understandable, given that the route between Asia and Alaska is shorter than the one from Kitimat and doesn't place inland waters at risk of an accident. Valdez also has a supertanker marine terminal that is underused because the supply of oil coming from Alaska's Prudhoe Bay field is declining.

The Alberta government provided the Van Horne Institute with a $1.8-million grant to do a pre-feasibility study on the G7G proposal. The institute is scheduled to report back this year.

The key advantage to the G7G railroad plan is the buy-in it has got from First Nations. G7G CEO, Matt Vickers, has already met with nations along the proposed route to obtain their preliminary approval, and he has received letters of support from most of them, as well as from the national Assembly of First Nations. In exchange for their support, G7G has offered First Nations along the route a 50 per cent equity stake in the project.

If it happens, G7G wouldn't be the first foray into the North for Alberta's energy sector. As Canatec's report noted, from 1970 to 1986, Alberta "held almost all the technological and managerial expertise in the world to operate exploration and production of oil and gas in the High Arctic and Beaufort Sea." During that period the idea of the Mackenzie Valley gas pipeline was put forward, and extensive research and discussion took place in the area during the Royal Commission. Justice Thomas Berger recommended that the project be postponed until land claims with

Aboriginal Peoples in the region were complete. Most of those land claims have since been settled, and they included the establishment of aboriginal review boards, which are unique in Canada.

In the land claim of the Inuvialuit people, the Inuvialuit Final Agreement (IFA) included the creation of the Environmental Impact Screening Committee and the Environmental Impact Review Board, both of which would review any major development projects on their lands. Likewise, in the Mackenzie Valley the land claims settlement included the creation of the Mackenzie Valley Environmental Impact Review Board. All three of these boards, in addition to the NEB, would need to be involved in the review process for any of the projects proposed in the Canatec report.

For its part, the Northwest Territories government is very interested in developing a transportation and energy corridor. Premier Bob McLeod is particularly fond of the idea. "The real value of a northern pipeline would be that it would allow us to develop our own resources on and offshore," he says. "Our own resources are estimated to be 10 billion barrels of oil and 92 trillion cubic feet of natural gas." And, he says, new economic activity is critical to the future of the approximately 44,000 people who call the Northwest Territories home. "We need development to survive."

But while the idea of adding export capacity for Canadian oil may have support among governments and aboriginal communities in the North, it still runs into the same opposition as stalled projects in the South. "Our perspective is that this pipeline would face the same issues as the other pipelines," says the Pembina Institute's Erin Flanagan. "The oil sands are the fastest growing source of GHG emissions in Canada, and there are no regulations to manage GHG."

More important, perhaps, are the prohibitive costs for any northern route for Canadian oil and gas. TransCanada's proposed Mackenzie pipeline had an original price tag of $16 billion, but that number has since been modified to $20 billion for the 1,200-kilometer route. Its proposed Energy East pipeline will cost $12 billion, and Keystone XL is estimated to cost approximately $10 billion, while Enbridge's Northern Gateway project is expected to cost at least $8 billion. The pipeline suggested by Canatec's report had no price tag, but given the scale of the projects described, and the similar challenges faced by the Mackenzie Gas Project, the cost of an oil pipeline to the Arctic is likely closer to $20 billion.

For his part, Alberta Premier Jim Prentice hopes to address both concerns about Alberta's approach to tackling climate change and the market-access issues that have stemmed from it. In a November speech to the Canadian Energy Summit in Calgary, Prentice said that, "In a world focused on environmental issues generally, and climate change specifically, energy leadership and environmental leadership have become two sides of the same coin. We need to work together to pursue environmental policies that are in our mutual interest – and, just as important, enhance our competitive advantage." His government is now crafting that climate change framework for the province.

While the Canatec proposal offers an intriguing solution to Alberta's market-access issue, it comes at a time when the price of oil has plummeted, costs for the northern gas pipeline have ballooned and climate change concerns will undoubtedly change the regulatory environment. As such, the secret to market access might be in addressing GHG, and the “real” Northern Gateway, or any other gateway, might have to wait until environmental policy catches up with energy production in Alberta.
