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## ARCTIC OFFSHORE DRILLING CLOSER TO REALITY AS PROJECTS ENTER REGULATORY REVIEW

No actual drilling is likely to happen for years, but major development decisions are being made now

Growing industry interest in the offshore oil resources of Canada's Arctic is forcing northerners from east to west to confront hard questions about development.

No actual drilling is likely to happen for years.

But major decisions are being taken now as projects enter the regulatory system.

Governments, aboriginal groups and Arctic communities are considering issues such as how to plug possible blowouts, who benefits from development and whether some waters should remain closed.

"The first time this process goes forward, it's going to set a template for others to follow," said Louie Porta, science and policy adviser with Oceans North, part



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of the Pew Environmental Trust. In the western Arctic, an aboriginal regulator is setting up hearings into a plan led by Imperial Oil to drill exploratory wells in the Beaufort Sea in 2020. The wells would be about 175 kilometres offshore from Tuktoyaktuk, N.W.T., in water up

to 850 metres deep, and are so complex and difficult to drill that the company estimates it would take at least two seasons to complete one. In the eastern Arctic, the National Energy Board is considering a proposal for seismic tests off Baffin Island that has sparked fierce

community opposition. In response to that proposal, the federal government has begun a strategic environmental assessment to consider which parts of a huge swath of ocean all the way down the island's eastern coast could be opened up for exploration and which might stay closed.

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The Beaufort project is being carefully examined by the Inuvialuit, the aboriginal group that has a land claim and self-government agreement in Canada's northwest corner.

'When it's onshore the benefits are much easier to grab ahold of, and the risks are less.' Nellie Cournoyea, head of the Inuvialuit Regional Corp.

The group has long experience with the oilpatch on land. But this project is different, said Nellie Cournoyea, head of the Inuvialuit Regional Corp.

"When it's onshore the benefits are much easier to grab ahold of, and the risks are less," she said. "When you go offshore you have higher risks and less benefits because of the high infrastructure investment you have to get involved.

"Plus, people are still concerned about the risks of oil spills or having a blowout."

The National Energy Board has said companies working offshore in the Arctic must have the capability to drill a relief well in the same season to release pressure and stop oil flow in case of a blowout such as the one that happened with BP in the Gulf of Mexico. But the board said other equally effective methods would be considered.

Imperial has said it's simply not possible to drill a same-season relief well in that region.

Cournoyea said the Inuvialuit are waiting for more information on how the company would respond to a blowout.

"We're dealing with that right now, to

see if we can get more information on what that option might be," said Cournoyea, who added that Inuvialuit representatives have travelled to the Gulf of Mexico.

Regulatory decisions on Imperial's plans to stop a blowout and limit the release of oil will be crucial for subsequent proposals, said Porta.

Setting a precedent "There's this ideology that we can prevent our way out of spills," he said.

"But there's a logical miscue to suggest that prevention technologies equal meaningful response when things go wrong. I think it establishes a dangerous precedent as Canada continues to figure out how to drill safely in an Arctic context."

On Baffin Island, the National Energy Board has concluded hearings on plans by a consortium to start looking for oil off the eastern coast with seismic testing late this summer.

The project is bitterly opposed by coastline communities that fear the loud noises will disturb marine mammal migrations. The municipality of Clyde River says the companies haven't provided any information on which animals use the area or how their activities might be affected.

"The proposed seismic testing and the resulting oil and gas drilling it would bring are not balanced development," the hamlet wrote to the energy board. "The (hunters and trappers organization) and hamlet council are firmly opposed to seismic testing in Davis Strait and Baffin Bay."

Aboriginal Affairs says no decisions

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have been made about whether those waters ultimately will be opened to oil and gas drilling, even if the energy board approves seismic testing.

"The strategic environmental assessment for potential offshore oil and gas exploration in Baffin Bay/Davis Strait will recommend to the minister if, where and when the region should be opened for exploration activities," say government documents.

Porta praises Ottawa for the attempt to get out in front of potential industry activity in the eastern Arctic.

"It's a great way to look at a broad question and understand and deal with some of the big-picture issues," he said. "To deal with those up front — things like what areas should

be open for rights, what does a meaningful royalty package look like for Inuit — it's the best way to make big, important decisions."

It will be years before northerners see offshore drill rigs, if ever. But now is when the decisions about how that return will be managed are being made, said Porta.

"You don't go from something to nothing quickly with Arctic oil and gas. The decisions happen now."

### NORTH AMERICAN NATURAL GAS SEEKS MARKETS OVERSEAS

A slew of multibillion-dollar coastal projects compete to ship super-chilled LNG to Asia and Europe

North America's natural gas boom is now so big that the industry and its supporters believe it should not be contained to just one continent.

They argue this new bounty should be shared—especially with hungry markets in Asia and Europe willing to pay a high price for the fuel. But long-distance transport of natural gas is one of the world's most expensive engineering feats, and it will require government approvals, community support, and billions of dollars in capital to take North American gas overseas.

Despite the challenges, proposals are now moving forward to make the Chesapeake Bay waterfront community of Cove Point, Maryland, into a global gateway for Pennsylvania shale gas, and to turn the remote British Columbia coastal village of Kitimat into an international energy hub.

**Supercool**

In all, some 40 new export projects have been proposed in the United States and Canada, giant multibillion-dollar facilities to superchill natural gas into liquid form at -260°F (-162°C) so it can be shipped by refrigerated tanker. This liquefied natural gas, or LNG, takes 600 times less space, making it economical to move by vessel.

The LNG business has been around for decades; Japan, the world's largest importer, relies on such shipments for all of its natural gas. But as the distance between the world natural gas supply and demand centers becomes more clear, price disparities have grown.

The International Energy Agency noted last fall that the price of natural gas in the European Union has been running at roughly triple the price in the United States, while Japan has been paying nearly five times as much.

As a result, there is a frenzy of building and planning to build and expand LNG terminals, not only in North America, but in other energy-rich locations such as Australia, the Middle East, and Russia.

Chris Holmes, senior director of global gas and LNG at the consulting firm IHS Energy, said proposed new and expanded international export facilities, a dozen of which are already under construction, would nearly triple the amount of liquefied natural gas on the market. The increase would likely meet global demand for decades, he said.

"You have a wide [price] spread there and that's the attraction," Holmes said.

Yet industry analysts say many of the proposed export facilities might not get beyond the planning stage because of high costs and stiff international competition. Exporting natural gas by ship requires building massive facilities to supercool the gas. Holmes said these liquefaction facilities cost as much as \$10 billion, only part of a \$30 billion investment to build a new export facility.

"This is a very challenging business," Holmes said, adding that it can take more than a decade to turn a profit.

**A Gas Wedge Against Putin?**

The financial realities mean that North American natural gas will not be hitting the high seas anytime

soon. That means U.S. energy supplies made bountiful by hydraulic fracturing, or fracking, are not likely to be a useful lever in the short term against the world's other natural gas powerhouse, Russia, in the current crisis over Crimea and Ukraine, experts say. (See related story: "Green Fracking? 5 Technologies for Greener Shale Energy.")

U.S. House Speaker John Boehner has suggested that the lack of U.S. natural gas ports amounts to a "de facto ban on exports," and he has called for President Barack Obama's

administration to dramatically expand natural gas production and speed export facilities in order to supplant Russia as Europe's natural gas supplier. But the consulting firm IHS said in a report Wednesday that although the United States is on track to become one of the world's three major LNG exporters by 2020 to 2022, the ultimate impact on European gas supply likely will be limited. (Russia will remain a major gas supplier to Europe because gas sent across the continent by pipeline still will make more economic sense than gas shipped across the ocean.)



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However, IHS said the Ukrainian crisis "may promote a shift to simplifying (and expediting)" the U.S. government's export approval process. (See related story: "Russia Raises Natural Gas Threat Against Ukraine.")

Fast Track for Cove Point?

At the same time, environmentalists have clearly stepped up opposition to LNG terminals: Leaders of 16 U.S. national and regional groups this week sent an open letter to Obama. They argued that expansion of U.S. LNG exports would undermine his administration's efforts to tackle the climate crisis. They urged a full federal environmental review of Richmond, Virginia-based Dominion's proposed \$3.8 billion project to turn a moribund LNG import terminal at Cove Point, Maryland, into an export terminal.

Last week, the U.S. Federal Energy Regulatory Commission said it intends to complete its environmental assessment of Cove Point in mid-May, with a decision on federal authorization of the project by August.

The rapid schedule is a disturbing development to some local residents who are concerned about increased air pollution, noise from the liquefaction facility, increased truck and ship traffic, and the risk of explosion or fire from tankers carrying superconcentrated natural gas.

"They are dumping all of this risk on us with no consideration," said retired Navy engineer Dale Allison, who has lived since 1997 in a home less than half a mile from the facility.

"This is a beautiful place where

people are happy to live and don't want to hear noise 24 hours a day and breathe pollution," added his wife, Sue. They said they would put their house on the market if the Dominion project gets final approval.

But the project has strong support from Maryland's construction trade unions and U.S. Representative Steny Hoyer, a Democrat who is one of Maryland's most powerful political figures. The three-year construction would provide up to 3,000 jobs, and, once operational, the facility would pump \$40 million a year into Calvert County, according to Dominion. (See related story: "Can Natural Gas Bring Back U.S. Factory Jobs?")

On the other side of North America, in Kitimat, a coastal town of 9,000 people in northwest British Columbia, where three separate LNG export projects are proposed, the local economic impact also is a major consideration.

Kitimat Mayor Joanne Monaghan says the terminals are already bringing desperately needed jobs to a community that lost much of its industrial base when a pulp and paper mill closed in 2009.

More than 3,000 workers have traveled from elsewhere in the province for jobs clearing land and doing other work in preparation for construction, Monaghan said. She hopes that number will swell to 10,000 if terminal construction begins. "This was a community of doom," she said. "Now it's a community of boom."

Keeping Low-Cost Gas at Home

But in the debate over North

American gas exports, there is another way to look at the economic impact. Even studies that project that increased LNG exports will help boost the U.S. economy conclude that exports will lead to higher domestic natural gas prices.

Not only would Americans pay more for heating fuel, but manufacturers, who use natural gas not only for power but as a feedstock for a wide array of plastic products, would see higher costs as well.

America's Energy Advantage, an industry group that includes Dow,

Alcoa, and others, is pushing to keep natural gas exports in check. Trent Duffy, a spokesperson for the group, said exports could stymie the American manufacturing renaissance that is possible due to the low price of domestic natural gas.

If Asian countries want to buy natural gas, Duffy said, they should be required to sign free trade agreements that would lower barriers for all U.S. goods and services. "Why not use what they need most to pry open their markets?" Duffy asked. "Why are



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[we] giving away the crown jewel?" U.S. homeowners would bear the brunt of the rising costs.

Scott Morrison, a spokesman for the American Public Gas Association, which represents publically owned gas distribution companies, and is also a member of America's Energy Advantage, said exporting gas will lead to a rise in heating costs, while lining the pockets of energy companies and stockholders. "This looks very much like wealth transfer to us," he said. (See related story: "No Freeze on Winter Energy Prices, Despite Natural Gas Boom.")

**A Global Race**  
Even as LNG project sponsors face a broad array of export opponents, and a complicated regulatory and financing process, they are racing each other to begin construction.

The Canadian government has approved eight export licenses\*, and is considering five other applications. In the United States, there have been 37 LNG export applications, six of which have gained U.S. Department of Energy (DOE) approval, the first step in the regulatory process to export natural gas to countries that do not have a free trade agreement with the United States.

Australia already has three functional LNG export facilities, and seven additional projects under construction. The new facilities have experienced construction cost overruns and delays, but if they are completed, Australia could rival the Middle Eastern giant Qatar by 2020 as the largest exporter

of LNG, according to the Paris-based International Energy Agency.

Analysts say projects planned for North America, if built, would put far more LNG on the international market than either Australia or Qatar, so the United States would rank first and Canada second among gas exporters.

Most experts believe that the capital markets will support construction of only a limited number of LNG terminals—enough to supply, but not flood, the market. Otherwise, the price of the fuel would fall too low to justify the enormous upfront investment.

That has some supporters nervous.

In the United States, construction has begun on only one terminal, the \$10 billion Sabine Pass project on Louisiana's Gulf Coast, which is being converted into an export liquefaction facility. The plant was constructed just a few years ago as an import facility, when it looked as though the United States was running short of natural gas. It is a living example of how quickly the global energy supply-and-demand picture can change. (See related story: "With U.S. Natural Gas Booming, a Move to Send It Overseas.")

Meanwhile in Canada, none of the companies has made a final decision on whether the terminals will go forward. Project sponsors have bristled over a proposed 7 percent tax on LNG facility income by the government of British Columbia.

Monaghan, mayor of Kitimat, thinks the province should quickly make a final decision on its tax structure and

negotiate with energy companies so her community does not get beaten in the global LNG race.

"The first over the finish line will win," Monaghan said. "And the others will be left behind."

### B.C. OIL PIPELINE OPPONENTS MARK 25 YEARS SINCE EXXON SPILL

The Exxon Valdez oil spill created an environmental disaster in Prince William Sound in 1989

Opponents of any increase in oil tankers off the B.C. coast are marking the 25th anniversary of the Exxon Valdez oil spill by launching a renewed campaign against two major pipeline projects.

Coastal First Nations are running newspaper and radio ads about the impacts they fear from oil spills at sea from Enbridge's Northern Gateway and Kinder Morgan's Trans Mountain pipelines.

The coalition of aboriginal communities along the B.C. coast are asking residents to

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support a ban on oil tankers in their traditional territories.

The Sierra Club says Prince William Sound on the Alaska coast has still not recovered from Exxon Valdez spill on March 24th, 1989.

The two projects proposed in B.C. would mean more than 600 additional tankers a year transporting diluted bitumen from the Pacific coast to Asia.

A federal review panel has recommended approval of the Northern Gateway after finding that a large oil spill would not cause permanent damage, and a decision is expected from the federal government in June.

**ALISON REDFORD'S DEPARTURE DISAPPOINTS SOME IN ENERGY INDUSTRY**

Sector hopes for equally supportive successor

Some people in Alberta's energy industry say Alison Redford's work as a promoter of the province's oil and gas will be missed.

Mark Smith, CEO of Surmont Energy, travelled with the premier on a trade mission to China last year.

Alberta's ruling Progressive Conservative Party's constitution requires that a selection be made within six months of a leader's resignation. Alison Redford announced she will be stepping down Sunday. (Sean Kilpatrick/Canadian Press)

Smith said Redford was a strong champion of Alberta's energy supply and he hopes the next leader will do the same.

"Having someone who was a little more forward thinking and actually willing to pick up and go and speak to the merits of the province was a real benefit," said Smith.

"So another premier that is willing to look beyond the borders of the province would be fantastic."

Smith said Redford repaired the government's relationship with the energy industry, which had been damaged by former premier Ed Stelmach's changes to the provincial royalty structure.

Lobby efforts

In addition to trade missions to Asia, Redford spent much time in the United States, urging legislators and opinion leaders to allow the construction of TransCanada's Keystone XL pipeline to increase exports of Canadian bitumen to refineries in the U.S.

Professor Bob Schulz, from the Haskayne Business School at the University of Calgary, said the next premier will have to stay the course in terms of pushing pipelines and streamlining the approval of new projects in Alberta.

"The next premier is going to have to support the pipelines," he said.

"I think most of the companies are concerned about the Alberta Energy Regulator, making sure their applications get

through on time," said Schulz.

However, at least one of Redford's energy initiatives is unlikely to survive her departure.

Michal Moore, an economist at the University of Calgary, said her push for a national energy strategy will probably stall.

"I can't imagine that it will come up again by its own volition, unless it comes from an outside place."

**ALBERTA FAMILIES WHO FLED OIL FUMES TO WAIT WEEKS FOR JUDGE'S DECISION**

It's been three years since members of the Labrecque family first started to get sick – thanks, they say, to oil fumes from next door. Now they'll need to wait a little longer for a judge to determine whether the oil tanks near their land will be temporarily shut down.



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"It's definitely been disheartening and discouraging," said Brian Labrecque, the son of two of the complainants. "In my parents' situation, it's been two years. And the other families, longer than that yet.

"Just when you think you're making a little bit of progress, it's one of these situations where it's one step forward, two steps back."

The Labrecques blame their illness on fumes generated by tanks owned by Baytex Energy, right near their homes in Reno, Alberta, southeast of Peace River. They complained of headaches, dizziness and other medical problems they believe are caused by the tanks' emissions. Several members of the family left their homes to get away from the fumes. Seven families in total, not all of them Labrecques, have left the area, according to the Labrecques' lawyer Keith Wilson.

Michel and Leona Labrecque, Alain and Karla Labrecque, and Andre and Marie Labrecque, all filed an injunction against Baytex in December 2013, asking the courts to order Baytex to shut down 86 vented bitumen storage tanks for eight months, which they say will give the company time to construct "properly sealed bitumen tanks." None of the parties to the injunction is currently living in the area, though they still own the land.

Baytex, for its part, has said its emissions don't break any rules and it doesn't need the additional sealing.

Both sides presented their cases to the Court of Queen's Bench in Peace

River on Wednesday, only to be told the judge needed more time to make a decision. Brian Labrecque expects to hear back in four or five weeks.

"The judge was unable to hand down a decision. He basically said because of the amount of material he had to go through, and it is pretty extensive, of course, he would need to take some time before he could rule on it," said Labrecque. He thinks there's a fifty-fifty chance that the injunction will be granted.

He thought there would be more urgency to resolve the situation. "People have to put their lives on hold, and many of them lost their livelihoods ... while the operator, the one who has been releasing these emissions into our airshed and causing these problems, hasn't really missed a beat throughout all of this."

Andrew Loosley, director of stakeholder relations for Baytex, said the company's emissions are safe, and the only barrier to sealing storage tanks is the residents themselves.

"It's important to note that expert advice with scientific study on the air in Reno has repeatedly said that the air is safe and we are committed to taking steps to reduce emissions in all our area operations," he said in a prepared statement.

"For more than three years we have been trying to install equipment that will upgrade the facilities that we bought in 2011, and capture emissions from the production sites. However, area landowner objections, roadblocks and continued objections to our regulatory applications,

some as recently as last week, have prevented us from making the exact improvements that these landowners have been asking for."

Labrecque said his family has never objected to Baytex installing vapour recovery systems. "Yesterday when their counsel brought it up, we were all kind of looking at each other and thinking, who objected? It's definitely not us."

Even if the injunction is granted, he isn't sure any of the families will return. "When you've been out of your home for two years, and

your home and property has been abandoned, it's actually quite a daunting task to return and to try to get everything back in order and get your life back in order."

The Labrecques and other Peace River-area families also participated in a public hearing by the Alberta Energy Regulator into odours and emissions from oil operations in their area in January. A report, including recommendations for changes to regulations, is expected to be released on March 31.

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