Alaska Highway Gas Pipeline Project

By

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For centuries Arctic countries have sought territorial franchises by drawing boundary lines across northern provinces. More recently, corporations and governments have drawn Arctic pipeline routes on maps, seeking to acquire power through modern economic franchises. The Alaska Highway Gas Pipeline Project is the story of a struggle for a franchise.

In 1967, North American gas demand and exciting Arctic prospects caused TransCanada Pipelines Ltd. to join American partners, Michigan Wisconsin Pipe Line Company and Natural Gas Pipeline Company of America, forming the "Northwest Project" to study movement of potential gas reserves in the Northwest Territories (Pointed Mountain area) south.

Soon after the 1968 bonanza discovery at Prudhoe Bay, more energy companies focused on economic conquest of this new Arctic world. After the September 1969 Prudhoe Bay lease sale produced $900 million for Alaska, rumors of huge reserves accelerated efforts to develop alternate transportation schemes for the oil and gas.

In 1969, the "Gas Arctic" project was formed. Alberta Gas Trunk Line, Ltd., Canadian National Railways, Columbia Gas Systems, Inc, Northern Natural Gas Company, Texas Eastern Transmission Corporation and Pacific Lighting Corporation coordinated study of a 1,550-mile pipeline from Prudhoe Bay to Alberta.

By early 1970, prospects for a 48" 1,700 mile oil pipeline from the North Slope to Edmonton looked promising, then failed. Older readers will remember the "Manhattan voyage through the Northwest Passage", a failed effort to determine feasibility of 'tankering' Alaskan oil directly to market.

In 1971, the Gas Arctic and Northwest Project groups merged, growing into the Arctic Gas consortium that numbered over twenty companies by 1973. Its members were less concerned about any 'transportation franchise' than with how to feasibly commercialize Prudhoe Bay and Mackenzie Delta gas. At its zenith, this energy dream team included the most powerful oil and gas production and transportation companies in the U.S. and Canada. The group was headquartered in Toronto under the chairmanship of financier William Wilder. Subsidiary companies included Canadian Arctic Gas Pipeline Limited (CAGPL, with Calgary offices) and Alaskan Arctic Gas Pipeline Company (AAGPC, with Anchorage and Washington D.C. offices). Former TransCanada President, Vern Horte, was president of CAGPL and Bob Ward led AAGPC. Ward had served as Lieutenant Governor of Alaska and, earlier, as Commissioner of Administration, had assisted in presiding over the 1969 North Slope lease sale.

1970s Era Arctic Gas Consortium

- American gas transmission companies such as: **Columbia Gas Transmission Corporation**, serving customers in the District of Columbia, Kentucky, Maryland, New York, Ohio, Pennsylvania, Virginia and West Virginia. **Michigan Wisconsin Pipe Line Company**, whose market areas were Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, Ohio, Tennessee and Wisconsin. **Natural Gas Pipe Line Company of America** (Subsidiary of Peoples Gas Company-Chicago), serving Illinois, Indiana, Iowa, Kansas, Missouri, Nebraska, Oklahoma, Texas and Wisconsin. **Northern Natural Gas Company**, with customers in Colorado, Illinois, Iowa, Kansas, Michigan, Minnesota, Nebraska and South Dakota. **Pacific Gas & Electric Company**, the San Francisco and northern California supplier which participated through a Canadian affiliate. **Pacific Lighting Gas Development Company**, an affiliate of Southern California Gas Company, which served customers in central and southern California. **Panhandle Eastern pipe Line Company** served markets in Illinois, Indiana, Michigan, Missouri and Ohio. **Texas Eastern Transmission Corporation** delivered gas in Alabama, Arkansas, Illinois, Indiana, Kentucky, Louisiana, Mississippi, Missouri, New jersey, New York, Ohio, Pennsylvania, Tennessee and Texas;
- and American oil producers: **Atlantic Richfield Company; Exxon Company USA; Sohio;**
- and Canadian companies, including: **Gulf Oil Canada Limited; Imperial Oil Limited; Shell Canada Limited; TransCanada PipeLines Limited; Union Gas limited; Alberta Gas Trunk Line, Ltd.; Alberta Natural Gas Company Limited; Canada Development Corporation; Northern and Central Gas Corporation Limited; and The Consumers Gas Company**

Arctic Gas filed applications with Canada’s National Energy Board and America’s Federal Power Commission in 1974. Its $70 million in research had pointed to an environmentally and economically feasible, 48” pipeline moving gas 2,600 miles from Prudhoe Bay and the Mackenzie Delta to Alberta, then via an “Eastern Leg” and a “Western Leg” to US consumers.

While Arctic Gas producers and pipeline companies focused on their engineering, environmental and financial studies, others were studying how best to capture a gas pipeline franchise. These included an Arctic Gas member and El Paso Natural Gas.

El Paso’s Chairman, Howard Boyd, had met Alaska Governor Walter J. Hickel in the early 1970s. The two believed North Slope gas should move in an “All American” line paralleling the oil line to the Valdez area, be liquefied, and taken by cryogenic tankers to California. There the LNG would be regasified and gas moved eastward via a 'displacement' scheme, reversing the flow of East-West pipelines.

After Arctic Gas filed applications, Northwest Pipeline Corp. president John McMillian, who had been supporting Arctic Gas, and Alberta Gas Trunk Line president Robert Blair, proposed that Arctic Gas modify its filings with the two regulatory agencies and adopt alternate routing in case Arctic's prime route was unacceptable. The alternate routing would parallel the Trans-Alaska Pipeline System (TAPS) to Fairbanks, moving down the Alaska Highway toward the East-West branches in Alberta. Another "Maple Leaf" branch down a proposed "Dempster Highway" route would connect Mackenzie Delta gas to the system. Arctic Gas had studied a dozen alternate routes and modes, deeming them all uneconomic and environmentally inferior. Several members believed that while the alternate routing could financially benefit certain Canadian and US pipeline companies and be politically attractive to others, the Consortium should continue representing the most economic and environmentally feasible project to the NEB and FPC. All were aware of political concerns arising from the ongoing Berger Inquiry, but most were determined to not let politics trump science and consumer interest.

In September of 1974 Bob Blair and John McMillian stopped supporting Arctic Gas. By mid-1975, a new consortium filed for a new route with the NEB. The "Maple Leaf" project drew sponsorship from former Arctic member, Alberta Gas Trunk Line and Westcoast Transmission, organized as Foothills PipeLines Ltd.. Maple Leaf would only move Mackenzie Delta gas to Canadian markets.

American and Canadian regulatory agencies then received applications in 1976 for the Alaska Highway Project (known as 'Alcan') for moving Alaskan gas to the Lower 48, sponsored by Northwest Pipeline Corp. Alcan, the US part of the consortium, would construct the 730-mile segment from the North Slope to the Canadian border. Foothills (Westcoast and Alberta Gas Trunk Line) would construct the Canadian segments.

Arctic Gas producer and gas distribution companies were outraged by what some considered a brazen attempt to establish a franchise. After all, it was the Arctic Gas consortium members who were doing the responsible research, had the gas and/or intended to arrange for equity financing of the project. Their frustration level was especially high considering they had studied LNG and Highway alternatives, finding them demonstrably unacceptable. It would be insult added to injury were government regulators to force one of these routes on them and force use of the renegade companies sponsoring that route.

Meanwhile, tortuous, long and expensive hearings before the NEB and FPC commanded countless man-years of time. In the Washington and Ottawa chambers—and around the countries--hundreds of witnesses prepared and testified as scores of lawyers representing the various competitors and special interests jousted, questioned, posed arguments and counter arguments…day after day…year after year.

If the NEB and FPC selected its project, Arctic Gas didn't want competitors and environmental activists to raise endless challenges in court, among other reasons. So, its management and attorneys met with Members of Congress to craft the language of what became the Alaska Natural Gas Transportation Act of 1976 (ANGTA). It employed as lobbyists, former Nixon White House executives Bill Timmons and Tom Korologos and democrat strategist Matt Reese (confidant to House Speaker Tip O'Neill), among others, in various aspects of the campaign. Its public affairs office worked with political consultants like the renowned Bill Squires and owner companies, obtained dozens of endorsements from companies, minority organizations, state regulatory agencies and national business organizations. In the same year, Justice Thomas Berger completed his Mackenzie Valley Pipeline Inquiry. 1976 was an important year both for Arctic Gas and its Alcan/Foothills competitors.

1977 was the year of decision. Early in the year, the FPC staff recommended approval of Arctic Gas' project, completely rejecting El Paso.

On February 1, FPC Administrative Law Judge, Nahum Litt, issued his long-awaited "Initial Decision" recommending Arctic Gas, completely rejecting Alcan.

"The Arctic Gas application is superior in almost every significant aspect when compared to El Paso," Judge Litt wrote. "It is found that Arctic Gas' prime route should be certificated, including both western and eastern legs."

As to Alcan, Judge Litt said, "No finding from this record supports even the possibility that a grant of authority to Alcan can be made. …Alcan's present design is clearly neither efficient nor economic," he elaborated, "since the pipeline is undersized."

Then, Judge Litt said *prophetically*, “The suggested three years construction schedule to be completed by 1981, which Alcan argues is one of its prime strengths, cannot occur.” As presently proposed,” Judge Litt concluded, “even with Alcan’s willingness to build anything anyone wants (as long as it does not oust Westcoast and AGTL from their Maple Leaf project), there is not enough left of its original proposal to serve as a basis for granting its application.” A few weeks later-- testament to their strategic thinking--Alcan and Foothills submitted revised applications to the NEB and FPC withdrawing their proposal for a 42” diameter line and accepting Arctic Gas’ 48” design.

Some two-hundred-fifty Arctic Gas employees from Anchorage to Calgary, Toronto and Washington D.C. felt due diligence had been vindicated. Hard work and ‘doing the right thing’ were paying off. The Alcan competitor was out of the game and the El Paso competitor was a distant choice.

If there was any euphoria in the Arctic Gas camp, it swiftly changed to concern with release of the Federal Power Commission’s final “Recommendation to the President”, on May 1, three months later.

In their May 2 letter to the President, the four members of the Federal Power Commission transmitted their analysis. “It is in the best interests of the citizens of the United States that a system be built in the near future to transport natural gas from the North Slope of Alaska to the contiguous United States,” they said.

The four commissioners, Richard Dunham, James Watt, Don Smith and John Holloman agreed on an overland route through Canada, eliminating El Paso. But contrary to Judge Litt’s decision, they raised the currency of Alcan’s proposal. Commissioners Dunham and Watt supported Alcan while Commissioners Holloman and Smith supported Arctic. “Based on today’s circumstances,” their letter explained, “ reasonable men can disagree on the right course of action.”

Following the procedure set out in ANGTA, which it had orchestrated, Arctic Gas knew that President Jimmy Carter would make a final decision based on a split FPC decision. What could maintain Arctic’s momentum? Clearly, it would be the NEB’s parallel certification process in Canada, also in the final stages.

On May 10, shortly after the FPC recommendation, Volume one of the Berger Royal Commission report urged, among other things, a 10-year moratorium on Mackenzie Valley development.

The pivotal event occurred on America's Independence Day, July 4, in the polished mahogany chambers of the National Energy Board in Ottawa. On one side of the aisle, sat Arctic Gas' management team: Chairman Bill Wilder, Vice Chairman Bill Brackett, Canadian Arctic's president Vern Horte, Alaskan Arctic's Bob Ward, and other executives including Canadian and American public affairs directors, Earle Gray and Dave Harbour. The Alcan side of the aisle was more lightly populated, led by the three principals: Alberta Gas Trunk Line's Bob Blair, Westcoast Transmission's, Bob Pierce and Northwest Energy's John McMillian. The three, silvery haired, mustachioed executives sat confidently with arms crossed. The impact of Justice Berger's recommendations and the influence of Alcan proponents soon became clear.

In its decision, the NEB rejected Foothills' Mackenzie Delta "Maple Leaf" project on the basis that, "…it is not economically justified, …not the lowest cost alternative available, …a pipeline should not be built along the Mackenzie Valley at this time…." It found that the Arctic Gas "…project is based in incompatible time constraints…." The Board said the Foothills (Alaska Highway/Alcan) project, "…offers the generally preferred route for moving Alaska gas…," but said "further engineering design, environmental and socio-economic information is to be filed prior to approval of final design…," and, "…special measures to mitigate undesirable impacts on native communities will have to be implemented."

Arctic and Alcan warriors left the dark chambers, emerging onto the sunny sidewalks quietly, showing little emotion. Arctic's executives met for one final dinner meeting at Le Guillotine restaurant, where disbelief transformed into group reality. Their historic project was dead and many arrangements needed to be made. Foothills in Canada and Alcan in the U.S. had positioned themselves beautifully and won a "franchise", ironically made into a monopoly by the very Alaska Natural Gas Transportation Act of 1976, created by Arctic Gas' efforts. In September, President Jimmy Carter and Prime Minister Pierre Trudeau created an "Agreement on Principles Applicable to a Northern Pipeline", subsequently ratified by Congress. The FPC then issued conditional certificates to ANGTS sponsors in the US.

In 1978 Canada adopted the Northern Pipeline Act, granting certificates to Foothills for construction of ANGTS, and created the Northern Pipeline Agency to oversee design and construction.

The NEB decision and President's decision both envisioned 'prebuilding' eastern and western legs of the Highway Project, providing US consumers with "surplus" Canadian gas prior to North Slope gas deliveries. The "Prebuild Western and Eastern Legs" began service in

Current Alaska Gas Proposals

- ANGTS-Alaska Natural Gas Transportation System, or the Alaska Highway Gas Pipeline Project. Foothills Pipe Lines would build the Canada segment while its US affiliate, Alaskan Northwest Natural Gas Transportation Co. would build the Alaska section.
- AGPPT-The Alaska Gas Producers Pipeline Team spent over $125 million in 2001 studying a northern route and the Highway route, concluding neither was feasible by close of 2002.
- TAGS-Trans Alaska Gas System is sponsored by Yukon Pacific Corporation, a subsidiary of CSX Corporation. Imitating the El Paso LNG project of the 1970s, it would move gas from Prudhoe Bay to the Valdez area for liquefaction and tanker transport. El Paso contemplated sales in California while TAGS has focused on Pacific Rim markets.
- Arctic Resources Corporation promotes a 100% Aboriginal owned, 100% debt financed northern route, but has no Alaska or producer support.
- Other LNG projects include:
    - Alaska Gas Line Authority, created by a ballot initiative in November 2002.
    - Alaska North Slope LNG Project, included Yukon Pacific, ConocoPhillips, Foothills, Marubeni and BP. Feasibility was not proven.
    - Alaska Gasline Port Authority, sponsored by the North Slope and Fairbanks Boroughs and the City of Valdez, promotes a TAGS-type project with an optional 'leg' extending from an Alaska Highway Pipeline.
    - Cook Inlet Pipeline Terminus Group, led by the Kenai Borough, advocates their own LNG project terminal.

1981 and 1982 respectively. Several old, Arctic Gas members were invited to the L.A. Marriott in 1981 where the ‘button’ was pushed to start prebuild gas flowing from Canada to the Pacific Northwest and California.

Then came diminished demand and price of gas. Until the price spikes of 1999-2000, industry didn’t pay much attention to Arctic gas projects for 20 years. Any Arctic gas found was incidental to exploration for oil. The Alaska Highway franchise was alive but nearly dormant.

In 2001 Alaska gas producers completed a $125 million study, determining that neither a northern route (similar to Arctic Gas’) nor an Alaska Highway Gas Pipeline were yet economic. They had also participated in a ‘Sponsor Group’ confirming infeasibility of an LNG project. With Alaska politicians firmly supporting the Highway project, the energy bill put on the Senate floor last fall contained language prohibiting the northern route and providing expedited approval and guarantees against low gas prices…prospectively *granting* economic feasibility to the project.

The legislation offered mixed messages to Foothills and current owners, TransCanada PipeLines Ltd., and Duke Energy. Prohibiting a competing northern route supported the long-held franchise. Providing federal price and loan guarantees supported project financing. But establishing new expedited approvals for a project would also open competition to entities other than Foothills. Foothills may still pursue a project based on ANGTA, but other companies—including old Arctic Gas successors—may apply for a project without support from Foothills. Then Congress adjourned without passing the energy bill.

Last May 24, Foothills Executive Vice President John Ellwood wrote a letter to Bill Britt, Alaska Gas Pipeline Office coordinator. In it, he said that “several uncertainties” were causing Foothills to “put on hold for a time” its application for a right of way across state lands. Foothills checks had partly funded work of the Alaska gas office. On May 28, Foothills’ Highway Project Communications Manager, Rocco Ciancio, said “…the federal energy bill sought by the ANS producers is currently awaiting outcome of the House-Senate conference. The final content of this legislation could have a significant impact on the project.”

On May 29, Alaska Pipeline coordinator Britt resigned and his office closed later in the summer.

Meanwhile, Mackenzie Delta producers and the Aboriginal Pipeline Group continue with feasibility work, to ultimately construct the ‘Canadian only’ project created by Foothills as their Maple Leaf project of the 1970s, but following the general routing of the old Arctic Gas project and not the Dempster Highway. The project is not without challenges but has momentum.

Foothills still has an argument for maintaining its ‘1976 franchise’ to build an Alaska Highway Project but a 2003 U.S. energy bill could open the Alaska portion of the franchise to a modern array of applicants, including former competitors. If highway project feasibility doesn’t materialize in 2003, it’s not beyond imagination that someday Alaska gas could piggyback on the Mackenzie Valley Pipeline as Arctic Gas pioneers envisioned three decades ago.

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(Sources: NEB archives, FPC documents, U.S. Senate Committee on Energy and Natural Resources, Foothills Pipe Lines Ltd. documents, contemporaneous notes and correspondence)

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