

NATURAL GAS - AN OPPORTUNITY FOR CANADA

An Address To
The Canadian Club of Toronto

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Chairman of the Board and President
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Mr. President and Gentlemen:

I am very grateful, Mr. President, for your invitation to speak to the members of the Canadian Club of Toronto. About two and a half years ago it was my privilege to tell you about some facets of the Trans-Canada story. At that time the emphasis was on major construction and expansion in the natural gas industry in Canada, and on the important impact of natural gas in the Canadian energy market.

Particularly in recent weeks, the press, radio and television media have been regularly confirming that there is still intense public interest in the development of the natural gas industry. Certainly much public attention has been focused on Trans-Canada's plans to deliver large additional volumes of natural gas to Eastern Canada.

In recent years the physical accomplishments of the natural gas industry have not been as newsworthy as during the earlier development years. However, I can assure you that current difficulties and complications are equal to, if not larger and more formidable than they were ten years ago.

An analogy between the Canadian Pacific story and the development of Trans-Canada's cross-country pipeline has often been made. These analogies refer to the era of romance when the vision was being transformed into reality, and to the bond created by these two steel arteries between the economies of Western and Eastern Canada. An analogy can still be drawn from the frustrations, economic problems and unrelenting pressures which assail management today.

However, this is not a situation or phenomenon that is experienced solely by this industry or by Trans-Canada. All those responsible for the economic welfare of an enterprise have to handle cross-currents of opinions and pressures. For example, as we approach our Centennial year, the best economists of our time continue to struggle with the twin problems of control of inflation and maintenance of high employment and productivity. We all know there are divergent views among scholars on the methods of solving these problems.

During these discussions, much is said about restriction of foreign capital, about continental approaches to economic problems, about guide lines for investment. Many changing views and formulae

are presented. Various levels of governments endeavour to become more and more involved in the operation of private business. Often the threat of further involvement of government agencies in business is more disturbing to confidence than actual governmental influence. The degree, direction and pace of government involvement is becoming an extremely important factor in today's business planning.

There is another type of influence on the character and progress of business. In today's extremely complex and usually rough and competitive business climate, the views of the investing public, of customers and the general public have a significant influence. Then there is the important effect of editorial views, and catchy headlines in our communication media. Trial in the court of a Sunday evening T. V. program is becoming a popular, but usually frustrating and one-sided experience for those who attempt to create and make a contribution to the development of their country.

Somewhere in this vortex of cross-opinions, management teams are trying to do their jobs. They are trying to explain their purpose and trying to plan, present, plead, convince, replan and quietly carry the burden and achieve a goal. Few in management survive if corporate affairs are not arranged in a way that satisfies governments, satisfies the ultimate consumer and satisfies the investors with a reasonable return so that expansion can continue.

It is within this framework and in this climate that business operates today. Our own company operation is a good example.

Trans-Canada is one of the few large and truly Canadian companies. It is of course a private investor-owned public utility and it is probably not widely enough known that 93.8% of its shares are Canadian owned. Of its 35,000 shareholders, 30,000 are residents of Canada. All its affairs are subject to the scrutiny of the National Energy Board. It is an enterprise whose earnings are regulated by the National Energy Board, but no minimum is guaranteed. It is open to competitive forces, not only from other forms of energy, including those subsidized by government, but from competition from our strong neighbour to the south. On occasion it is subject to political ambitions and counter-ambitions. Nevertheless, its management has to face head-on the task of maintaining an efficient and economic service in a free enterprise economy.

So much for the various external influences that affect the course of a company and the decision of its management. As an indication that management teams in all sectors of the Canadian natural gas industry have acquired the skills and know-how to progress and prosper under these conditions, I want to review briefly some economic facts, some accomplishments, and some goals of the Canadian natural gas industry.

Primarily because of its high degree of industrialization, Canada is a very large consumer of energy. The Canadian per capita consumption of petroleum products is second only to the United States.

We lead in phone calls but are only second in energy. It is estimated that the Canadian expenditure on fuel and power is just about one tenth of our total output of goods and services.

We are very fortunate to be so richly endowed with all forms of basic energy. History has proven that our industrial progress will be proportionate to our availability of energy. However, in recent years Canada has shown an international trade deficit in energy-producing resources. As recently as 1950, we as a nation imported more than 60% of all our fuel requirements. Two out of three tons of coal used in Canada were mined in the United States. Right now, 90% of the coal used in Ontario is imported from the United States and paid for in U. S. funds. The trend is toward 100%.

Looking back again to 1950, three out of four barrels of crude oil consumed in Canada came from abroad, and even now, at the current consumption rate, our net imports of petroleum products cost in excess of \$100 million per year in foreign exchange.

As a country we are fortunate that our energy trade deficit is steadily decreasing. Natural gas has played a major role in reducing this dependence on others. If all present plans are brought to fruition, in the not too distant future, this trade deficit in energy can be transformed into a surplus.

During the last few years this adaptable and dependable form of energy has been introduced to many communities in Canada.

From Vancouver to Montreal almost every area with a population of 7,000 or more people is served by a natural gas pipeline system. In miles of pipe we are behind only the United States and the Soviet Union, both with more than ten times our population. We are also third in the world in production of natural gas and intend to keep it that way.

The broad acceptance of natural gas in almost every sector of industry, including mining, in the steel industry for blast furnaces and for ore pelletizing, for potash in Saskatchewan for the fertilizer industry, are but a few examples. There are countless examples of fabrication and processing applications where gas is used in modern industry. As it is used to heat, anneal, dry, harden, cut and purify, it is said that it has 25,000 applications. As a result, from nowhere a decade ago, natural gas now ranks in sixth position in value of earth resources and minerals in Canada. In ten years, the volume sold has increased fourfold. In 1966 natural gas will supply about 18% of the total Canadian energy demand, compared with only 5% of a much smaller market ten years ago. The total revenue of the industry now exceeds an annual rate of \$500 million and the industry now serves over 1,600,000 customers in Canada.

The increasing volume of natural gas sales has helped to create new associated industries. For example, the processing and sale of liquids from the natural gas stream has grown at a tremendous rate, with sales of propane, butane and other by-products of the stream

approaching 18 million barrels annually. Similarly the sulphur industry has burgeoned to almost 2,000,000 tons of production this year, more than 50 times the 1956 volume.

While all this growth has been taking place it is encouraging to note that Canadian equipment manufacturers have kept pace with the requirements of the industry. We in Trans-Canada, for example, are proud that the Canadian content of current construction exceeds 90%. Our policy has always been to encourage Canadian design and manufacture of the specialized equipment we need.

Probably the most important achievement of all is the development of the people employed in the natural gas business. Skills have been developed, and the industry is proud of the specialized personnel which have been developed in a relatively short time. Without their dedication and sincere approach to service to the public, to the solution of complex and varied problems, the industry could not of course have reached its present stature.

Without qualification, it is factual to say that the record of the natural gas industry in the short span of ten years, is impressive. Problems and situations that seemed to be insurmountable have been solved and eliminated. The basic talent and ability within this industry will surely face the future with confidence and maintain this impressive record. There is no doubt that natural gas is still an opportunity for Canada.

We can, however, afford little time for reflection and must continue to look ahead. The Great Lakes Project is the key to a healthy future for the natural gas industry, both for Eastern Canadian consumers and for Western producers. Your President has suggested I should talk about the Great Lakes Project and some others here today have told me they won't let me sit down unless I do. I sincerely welcome the opportunity to talk about this project which has created such wide national interest in recent weeks. Basically, I want to tell you why Trans-Canada, a Canadian owned and managed company, is involved in a pipeline project through the United States.

Trans-Canada has entered into a partnership with American Natural Gas Company, a large transporter and distributor of gas in the midwest United States, for the construction of a 989 mile pipeline, 36 inches in diameter, from Emerson on the border south of Winnipeg, to Sault Ste. Marie and Sarnia. The proposed new U.S. company that will construct and operate this pipeline will be Great Lakes Gas Transmission Company. Trans-Canada will participate actively in Great Lakes through an equal ownership of stock, a 50% representation on the Board of Directors, and an agreement to nominate the chief executive officer.

Approximately 90% of the gas through the Great Lakes line taken from Western Canadian fields will be delivered to markets in Eastern Canada. The balance of 10% will be sold to our partner in the U.S. middle west and the revenues from this export sale go to reduce the cost of gas to Canada. Additional future sales to the U.S. market will be

made, only if it is in the best interests of Canadian gas producers and Canadian gas consumers. No additional sale can be made to the U.S. unless it is in Canada's best interests because Canada controls the gas supply and the authorization to export. This procedure is entirely under the control of the National Energy Board.

The Great Lakes project will save Canadian gas consumers \$75 million in the first ten years of its operation compared with the costs that consumers would have to pay if gas was transported through a looped line in Northern Ontario. These savings will continue throughout the life of the facilities. With current pressures of inflation, and when Canadian industry faces keen world competition, any action that has a levelling effect on prices is surely to our national advantage. The lower price made possible by Great Lakes will increase the volume of sales very substantially, more sales mean more miles of distribution company mains, more meters to be read, more customers to be serviced, - in brief, more jobs when more gas is sold.

You have probably heard of the work done by Doxiadis, the Greek community planning expert, who is examining various highly populated areas of North America. By the year 2000, just thirty-four years from now, his group predicts a megalopolis, a continuous populated corridor, from Windsor to Quebec City. It is in this area that 75% of Eastern Canada's energy is now used, and will be used in the future. In our country, when our natural fuel resources are so far from the market, I submit that any plan to reduce the cost of energy at the

point where it is needed is good for all of us.

If we abandoned the Great Lakes Project and commenced looping the existing pipeline through Northern Ontario, our gas delivered to this Windsor to Montreal area would have great difficulty competing with gas from U.S. sources. Many U.S. pipelines are extremely anxious to capture the Ontario and Quebec markets. If we ever did lose the large market in Southern Ontario where we sell 80% of the gas that moves through Northern Ontario, our volume would not be large enough to justify large diameter pipelining. This in turn would eliminate the economic advantages of big inch pipelining, and costs would go up. As a result prices to consumers would rise and everyone, including Northern Ontario, would lose the advantage of low cost energy.

Northern Ontario is rough pipelining country and in addition, the haul of gas from Alberta to the storage fields near Windsor is 200 miles further via Northern Ontario than by the Great Lakes route. We in Trans-Canada are convinced that to remain competitive with U.S. gas and to provide service to Northern Ontario and Eastern Canada at the lowest possible cost is our important corporate responsibility and purpose. This is why we are prepared to participate with 50% ownership in a line through the United States.

Another most important factor that influences this entire situation is the financing of the Northern Ontario loop line. Last March we informed the National Energy Board that financing of the

Northern Ontario loop would be extremely difficult but that we thought it was manageable. Since then, interest rates have drastically increased and money for such a relatively less economic venture is not available. It was therefore necessary for us to advise the government during the last review of our case that, if the Northern line could be financed, the interest rates might well be prohibitive.

It is now well known that late in August the Government of Canada rejected the National Energy Board recommendation that our project be approved. I want to emphasize that the NEB hearing of our case lasted for ten days last March and all interested parties had a full opportunity to express their views and state their position. This public hearing was well advertised and many groups participated. Our plans and alternatives were cross-examined in great detail. Trans-Canada answered every question and all data and studies requested were submitted to the Board.

After five months of consideration and examination of our case, the Energy Board determined that our Great Lakes project was in the public interest, the price of gas for export was not detrimental to Canadian interests, and that the gas for export was surplus to Canadian requirements. The NEB is a competent regulatory body, well staffed by many technical and economic experts.

In the rejection of our project by the government last August, the Prime Minister stated:

"In its decision, the Government was guided by basic considerations of national policy, and not by reason of any technical defects or shortcomings, in the application or in the Board's treatment of it. We have no fault whatever to find with the Board's report. In fact the Board has dealt exhaustively as well as conscientiously with the application. Neither do we find any fault with Trans-Canada for seeking to establish what appeared to it to be an attractive business proposition, and one which Trans-Canada put forward in good faith as being consistent with the public interest."

After a great deal of further consideration, and based on certain further undertakings offered by Trans-Canada, we were of course pleased to receive government approval of our project early in October. As part of the agreement between the government and the company, we will always carry more than 50% of the gas for Eastern Canada through Northern Ontario. By 1976, ten years from now, based on presently anticipated market growth, we will be moving 60% of our gas for Eastern Canada through the northern line and within a reasonable time after 1976 we will increase this to 65%. We have also confirmed our agreement that we will not dispose of our ownership in Great Lakes without government approval.

As part of our planning and to meet our undertaking with the government, we will be starting to loop our Northern Ontario line not later than 1970. I think it is significant that this loop, as we are now planning it, will be 36" diameter. With a 30" and a 36" line in Northern

Ontario, and consistent with the requirement of our agreement with the government, I think it is evident that the northern line will always be the main line.

Much has been said recently about a shortage of gas in Northern Ontario. I can assure you that Northern and Central Gas Company serving that area, and Trans-Canada, have always fulfilled all their contractual commitments in Northern Ontario and will continue to do so. Northern Ontario will actually have a substantial increase in the volume of gas available after Great Lakes is in operation. In a way they will have their own private pipeline. In addition, because of the improved economics that result with Great Lakes, we have been able to sell gas to Northern and Central at a price approaching 10% below the price if the Northern Ontario line had to be looped without Great Lakes.

It is significant that the gas distribution companies in Eastern Canada, including Northern Ontario, have completely supported Great Lakes. We in Trans-Canada are greatly indebted to The Consumers' Gas Company, Union Gas Company of Canada, Northern and Central Gas Company and Quebec Natural Gas Corporation for their able and unqualified support of our project. We value this opportunity to publicly thank them. They are large, well managed and interested in the economy and growth of their franchised areas. They, of course, have a corporate duty to obtain gas at the lowest possible cost.

Canadian content in the proposed Great Lakes system has

not been forgotten. As a partner in Great Lakes, Trans-Canada has made sure that Canadian manufacturers and contractors will be afforded full opportunity to bid on all materials and services. As an example, we are proud that already Canadian mills have shipped 50 miles of 36 inch pipe, made from Canadian plate, to Michigan, and 23,000 HP of Canadian gas turbines are on order.

We must now direct our best efforts toward obtaining approval from the Federal Power Commission in Washington. The benefits of Great Lakes are so important to the consumers of Eastern Canada and the gas producers out West that I can assure you we will do our best to expedite a favourable decision in Washington. We must take advantage of this "opportunity for Canada" to acquire an abundant supply of energy where it is needed and convert our planning to the construction phase of the project as soon as possible.

There are many opportunities for Canada associated with this project. An abundant supply of low cost natural gas will be a significant contribution to industrial expansion in Northern Ontario as well as in Eastern Canada. Availability of abundant volumes of natural gas from the Great Lakes project could also be a significant contribution toward the elimination of air pollution, a problem that is occupying the attention of all levels of government.

Looking into the future, there are many interesting new applications of natural gas on the horizon. Any method of moving gas

from our abundant Western fields to Eastern markets that is not the most economic method just cannot be acceptable if Canada is to keep pace with modern development. For example, scientists are now actively considering the use of liquid natural gas as fuel for supersonic aircraft. It is estimated that if LNG is adopted for this application, Dorval and Malton combined would require about a billion cubic feet of natural gas per day, more than the present total consumption in Eastern Canada. Fuel cells, total energy installations, fertilizer feedstock to help grow the produce to feed the world, are but a few more future requirements for which we will need abundant and low cost supplies of natural gas. We must not allow the opportunities for Canada to pass by.

The pipeline through the U.S. middle west will also greatly enhance the security of service of existing facilities. Not only will it be another line that would be used in the event of trouble on the northern line, but it would be inter-connected with several large American gas systems and storage fields.

Some inherent advantages of the Great Lakes project were mentioned in the Prime Minister's dispatch which gave Canadian approval, and it said:

"The project as now contemplated will increase production of gas in Western Canada and help industrial development in Eastern Canada. It will facilitate larger exports of Canadian gas to the United States and give better service

to certain areas within Canada and provide more security to eastern consumers in general, especially in case of emergency. "

We do believe that the natural gas industry is on the threshold of another tremendous expansion that will follow U.S. approval of the Great Lakes project. While we are proud of the accomplishments of the last ten years, people in the gas business in Canada will continue with the same dedication and desire to serve in the future.

Thank you very much.