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courage is contagious

Viewing cable 03OTTAWA1149, ALBERTA ENERGY LEADERS ON GOOD NEWS, WORRIES

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Table with columns: Reference ID, Created, Released, Classification, Origin

This record is a partial extract of the original cable. The full text of the or

UNCLAS SECTION 01 OF 03 OTTAWA 001149
SIPDIS
SENSITIVE
STATE FOR P STAFF (HAMMER), E STAFF (PENCE) EB (A/S WAYNE AND DAS BORG), EB/ESC (MCMANUS AND DUDLEY), WHA/CAN (MASON AND RUNNING), OES/EGC (REIFSNYDER AND DEROSA)
EMBASSY MEXICO CITY FOR ROSENMAN
WHITE HOUSE FOR NSC (BROCK) AND OVP (KNUTSON)
DOE FOR S STAFF (HUDOME) AND I/A (A/S BAILEY AND KATHLEEN DEUTSCH)
STATE PLEASE PASS FERC FOR CHAIRMAN WOOD, KEVIN KELLY AND DONALD LEKANG
E.O. 12958: N/A
TAGS: ENRG EPET ECON SENV CA
SUBJECT: ALBERTA ENERGY LEADERS ON GOOD NEWS, WORRIES
SENSITIVE BUT UNCLASSIFIED - NOT FOR RELEASE OUTSIDE USG.
1. (SBU) SUMMARY AND INTRODUCTION. ALBERTA ENERGY SECTOR LEADERS SUPPORT U.S. GOALS IN IRAQ, ARE VERY PLEASED THE U.S. ENERGY INFORMATION ADMINISTRATION (EIA) HAS BEGUN TO TREAT OIL SANDS AS PROVEN RESERVES AND ARE CONCERNED THAT NORTH AMERICA IS BECOMING OVERLY RELIANT ON NATURAL GAS FOR ELECTRICITY GENERATION. ALTHOUGH HARDLY SURPRISING IN U.S.-FRIENDLY ALBERTA, DURING MEETINGS THE WEEK OF APRIL 7, CALGARY CG CHAVERA AND EMBASSY ENERGY OFFICER ALL BUT HAD TO CUT OFF PRO-WASHINGTON, ANTI-OTTAWA TIRADES BY BOTH PROVINCIAL MINISTERS AND ENERGY EXECUTIVES, WHO NOT ONLY BROADLY SUPPORT U.S. POLICY IN IRAQ, BUT EVEN MORE INTENSELY RESENT THE FACT THAT "THEIR MINISTER" (FEDERAL NATURAL RESOURCES MINISTER HERB DHALIWAL) CALLED THE PRESIDENT A "FAILED STATESMAN" AND WAS NOT REBUKED BY PRIME MINISTER CHRETIEN. CG AND ENERGY OFFICER ASSURED THEM THAT WHILE THE DISAPPOINTMENT AMBASSADOR CELLUCCI EXPRESSED WITH THE GOC OVER IRAQ POLICY IS VERY REAL AND OUR DISMAY AT DHALIWAL'S STATEMENT IS DEEP, OUR FRUSTRATION HAS NOTHING TO DO WITH OUR ENERGY RELATIONSHIP, WHICH WE VALUE GREATLY.
2. (SBU) A NUMBER OF THESE SAME INTERLOCUTORS NOTED HOW PLEASED THEY WERE BY EIA'S NEW DATA SHOWING CANADA WITH 180 BILLION BARRELS OF TOTAL PROVEN RESERVES, SECOND ONLY TO SAUDI ARABIA AND WELL AHEAD OF NUMBER THREE IRAQ. AT THE SAME TIME THEY RAISED CONCERNS ABOUT FUTURE PIPELINE AND REFINERY CAPACITY FOR HEAVY CRUDE, ESPECIALLY AS OIL SANDS OUTPUT NEARS ONE MILLION BARRELS PER DAY (BPD) AND STARTS ON WHAT IS EXPECTED TO BE A 5-10 YEAR ROAD TO THE SECOND MILLION. WE ALSO HEARD GREAT ENTHUSIASM FOR BRINGING THE ARCTIC GAS RESERVES OF CANADA'S MACKENZIE BASIN (FIRST) AND THEN ALASKA'S PRUDHOE BAY TO MARKET, COUPLED WITH CONCERN THAT EVEN THESE LARGE DEPOSITS WILL ONLY HELP NORTH AMERICA TO KEEP TREADING WATER ON GAS SUPPLIES AS WE BUILD MORE AND MORE GAS-FIRED GENERATION. THE ALBERTA LEADERSHIP ALSO CONTINUES TO HAVE CLIMATE CHANGE AND CANADA'S KYOTO IMPLEMENTATION PLANS MUCH ON ITS MINDS, BUT SEEMS NOW TO FEEL THAT THE "DAMAGE COMING FROM OTTAWA" CAN BE MANAGED. PROVINCIAL ENERGY MINISTER MURRAY SMITH LOOKS FORWARD TO A PLANNED EARLY JUNE TRIP TO WASHINGTON AT WHICH TIME HE HOPES TO MEET WITH U/S LARSON AND A/S WAYNE. WE RECOMMEND GRANTING SMITH AT LEAST ONE OF THESE MEETINGS AS HE IS VERY WELL-INFORMED AND INFLUENTIAL. END SUMMARY AND INTRODUCTION.

OIL SANDS: GOOD NEWS AND FUTURE WORRIES

¶3. (SBU) MINISTER SMITH, CANADIAN ASSOCIATION OF PETROLEUM PRODUCERS (CAPP) PRESIDENT PIERRE Alvarez_ AND EXECUTIVES FROM BP AND PETROCANADA WERE UNITED IN EXPRESSING PLEASURE AND APPRECIATE FOR U.S. EIA'S RECENT DECISION TO REFERENCE THE "OIL AND GAS JOURNAL'S" TREATMENT OF OIL SANDS AS "PROVEN RESERVES" ON THE ORDER OF 175 BILLION BARRELS. THEY HAILED THIS AS A BIG WIN FOR THE OIL SANDS INVESTMENT CLIMATE AND AT LEAST A SYMBOLIC VICTORY FOR NORTH AMERICAN ENERGY SECURITY. AT THE SAME TIME, BP CANADA CEO TIM FAITHFUL AND OTHERS NOTED THAT WITH MOST OIL SANDS PROJECTS RUNNING WELL OVER BUDGET THAT THE INDUSTRY IS GOING THROUGH A TOUGH DIGESTION PROBLEM AS IT APPROACHES ONE MILLION BPD IN OUTPUT. MINISTER SMITH, CAPP OFFICIALS AND FAITHFUL ALL NOTED THAT THE STRAINS ON LABOR SUPPLIES WILL BECOME GREATER IN THE NEXT FIVE OR TEN YEARS AS OIL SANDS OUTPUT REACHES TWO MILLION BPD. SOME ALSO EXPRESSED CONCERN THAT WITH NO NEW REFINERIES BUILT IN NORTH AMERICA IN DECADES THAT OUR CAPACITY TO SHIP AND REFINED ALL THIS HEAVY CRUDE WILL BE CHALLENGED. SOME NOTED THAT WITH MORE BLENDS OF EVER CLEANER GASOLINE REQUIRED, THAT LOOKING STRATEGICALLY AT PIPELINE AND REFINING CAPACITY WILL BE NEEDED FOR INCREASING OIL SANDS PRODUCTION IN THE FUTURE, ESPECIALLY FURTHER OUT AS IT MOVES BEYOND TWO MILLION BPD. IN THEIR VIEW, COORDINATED ENVIRONMENTAL/AIR QUALITY POLICIES WILL BE INCREASINGLY IMPORTANT AS WE DEAL WITH RISING OUTPUT AND USE OF HEAVY CRUDE.

¶4. (SBU) SMITH AND OTHERS ALSO WANT TO MAKE SURE THAT THE USG IS AWARE THAT OVER TIME THERE WILL BE TREMENDOUS ELECTRICITY CO-GENERATION AVAILABLE AS A RESULT OF THE HUGE THERMAL NEEDS OF THE OIL SANDS REFINING PROCESS. THIS COULD OVER TIME MAKE SIGNIFICANT NEW ELECTRICITY EXPORTS AVAILABLE TO THE UNITED STATES, BUT AT LEAST FOR NOW THERE IS LIMITED CAPACITY TO MOVE THIS WEST AND THEN SOUTH THROUGH BRITISH COLUMBIA AND ON TO OUR PACIFIC NORTHWEST. THERE IS ALMOST NO CAPACITY TO MOVE IT SOUTH INTO THE U.S. ROCKY MOUNTAIN STATES AND MARKETS FURTHER AFIELD. ALBERTANS SEE THIS AS A PROMISING ISSUE FOR FUTURE PROVINCIAL-STATE, WASHINGTON-OTTAWA AND REGULATOR TO REGULATOR COORDINATION.

ARCTIC GAS IS GREAT, BUT WHERE IS THE REST?

¶5. (SBU) AS ALWAYS, ALBERTANS IN THE ENERGY SECTOR ARE FOLLOWING ARCTIC GAS DEVELOPMENTS, INCLUDING ON THE LEGISLATIVE FRONT IN WASHINGTON, VERY CLOSELY. THE WIDELY HELD VIEW IN ALBERTA THAT THE SMALLER MACKENZIE LINE WILL BEAT THE MAMMOTH PRUDHOE BAY PROJECT TO THE PERMITTING PROCESS AND TO MARKET IS VIEWED AS GOOD NEWS FOR CANADA AND FOR BILATERAL RELATIONS. ALBERTA, AS A TRANSIT POINT FOR ANY PRUDHOE BAY LINE, LOOKS FORWARD TO SEEING THAT PROJECT BUILT AS WELL, BUT OFFICIALS SUCH AS SMITH AND SENIOR INDUSTRY EXECUTIVES REMAIN CONCERNED THAT WASHINGTON NOT APPROVE A FISCAL REGIME FOR PRUDHOE BAY GAS THAT CREATES INVESTMENT DISINCENTIVES FOR OTHER BASINS OR THAT ARTIFICIALLY CREATES A HUGE, SUDDEN JUMP IN SUPPLY. THE KEY TO MOLLIFYING AT LEAST CANADIAN ENERGY ELITES IN ALBERTA SEEMS TO LIE IN FINDING A SET OF FISCAL AND REGULATORY MEASURES FOR PRUDHOE BAY THAT DOES NOT APPEAR TO DEPART TOO SEVERELY FROM THOSE DEPLOYED ELSEWHERE. THUS, LOAN GUARANTEES AND ACCELERATED DEPRECIATION SEEM ACCEPTABLE, WHILE AT LEAST LAST YEAR'S VERSION OF A PRICE FLOOR OR GUARANTEE CAUSES OFFENSE.

¶6. (SBU) AT THE SAME TIME AS THESE SOPHISTICATED OBSERVERS WORRY ABOUT AN OVERLY-GENEROUS PRUDHOE REGIME BRINGING TOO MUCH GAS ON-LINE TOO SUDDENLY AND WITH TOO LITTLE RISK, THEY ALMOST ALL WORRY THAT NORTH AMERICA IS BECOMING OVERLY RELIANT ON NATURAL GAS FOR ELECTRICITY GENERATION. MANY ARGUE THAT EVEN MACKENZIE PLUS PRUDHOE BAY WOULD ONLY SUPPLY ABOUT ONE THIRD OF WHAT NORTH AMERICA MUST REPLACE EVERY YEAR JUST TO TREAD WATER. ELDER STATESMAN AND GAS EXPERT JIM GRAY, IN PARTICULAR, JUST DOES NOT SEE WHERE ALL THE GAS WILL COME FROM FOR OUR INCREASINGLY GAS-DRIVEN ELECTRICITY SUPPLY GROWTH. AND ON ARCTIC GAS, HE VARIES FROM THE CROWD IN BELIEVING THAT LNG IS MORE ECONOMIC THAN PRUDHOE BAY AND WONDERS IF WE WILL NOT MOVE TO LNG AND GAS AS A "GLOBAL COMMODITY" LONG BEFORE A PRUDHOE BAY LINE IS BUILT. MINISTER SMITH IS CONCERNED THAT BY THE TIME THE U.S. IS IN FULL

ECONOMIC RECOVERY THAT INADEQUATE GAS SUPPLIES COULD
CHOK OFF GROWTH, WHICH HE NOTES IS JUST WHAT THE VICE
PRESIDENT'S 2002 REPORT WARNED ABOUT AND CALLED FOR
MEASURES TO AVOID. TRANSCANADA PIPELINE SENIOR VP ROBERT
DAY THINKS GAS DEMAND WILL SO OUTSTRIP SUPPLY FROM
TRADITIONAL NORTH AMERICAN SOURCES THAT BOTH ARCTIC
RESERVES AND LARGE IMPORTS OF LNG WILL BE THE TREND OVER
THE NEXT TEN YEARS. ALL OF THESE GENTLEMEN CAUTION THAT
RATHER THAN VIEWING THE WINTER OF 2003 AS AN UNUSUALLY
COLD ONE, WE SHOULD VIEW IT AS MERELY A RETURN TO
NORMALCY AND VERY HIGH GAS DEMAND.

CLIMATE CHANGE: BETTER MADE IN EDMONTON THAN OTTAWA

¶7. (SBU) WHILE DISTRUST OF OTTAWA ON CLIMATE CHANGE AND
KYOTO IMPLEMENTATION (AND MOST OTHER THINGS) REMAINS THE
NORM IN ALBERTA, THE EXTREME HOSTILITY TO OTTAWA-DRIVEN
POLICY OF A FEW MONTHS AGO HAS MODERATED. FROM WHAT
ALBERTA ENVIRONMENT MINISTER LOREN TAYLOR TOLD US,
ALBERTA IS HOPING TO HAVE ITS "MADE IN ALBERTA" CLIMATE
CHANGE PROGRAM (PERHAPS INCLUDING EMISSIONS TRADING) UP
AND RUNNING LONG BEFORE OTTAWA HAS ITS KYOTO
IMPLEMENTATION PLAN OPERATIONAL. THE ALBERTA PLAN WOULD
BE MODELED IN MANY RESPECTS ON THE MARKET-DRIVEN U.S.
"EMISSIONS EFFICIENCY" APPROACH RATHER THAN THE MORE
"COMMAND AND CONTROL" VERSION THEY SEE AS COMING FROM
OTTAWA. TAYLOR ALSO EXPRESSED ENTHUSIASM FOR THE
PRESIDENT'S CLEAN SKIES INITIATIVE TO REDUCE NOX, SOX AND
MERCURY EMISSIONS FROM POWER PLANTS AND IS INTERESTED IN
A SIMILAR MODEL FOR ALBERTA AND CANADA. FOR THEIR PART,
WHILE SUCH INDUSTRY LEADERS AS CAPP'S Alvarez, BP'S
FAITHFULL AND MIDDLE-MANAGERS AT PETROCANADA ARE ANYTHING
BUT ENTHUSIASTIC ABOUT OTTAWA APPROACH TO KYOTO, THEY
VIEW IT AS MERELY ONE MORE FORM OF RISK TO BE MANAGED.
MOST SEEM TO TAKE THE VIEW THAT BY THE TIME
IMPLEMENTATION IS FAR ADVANCED "PAUL MARTIN WILL BE PM'
AND HE "UNDERSTANDS AND SUPPORTS" THE OIL AND GAS
INDUSTRY. IN THE MEANTIME, THEY ARE NEGOTIATING
FURIOUSLY WITH WHAT THEY DESCRIBE AS A STILL DEEPLY
FRACTURED FEDERAL GOVERNMENT WHILE WORRYING AS MUCH OR
MORE ABOUT COST-OVERRUNS AS THEY ARE ABOUT KYOTO. FROM
OUR END, WE HAVE TO AGREE THAT THE NATURAL RESOURCES
CANADA-ENVIRONMENT CANADA FEUD THAT KYOTO RATIFICATION
LAST DECEMBER WAS SUPPOSED TO END, IS ALIVE AND WELL AND
PROBABLY TAKING MORE VICTIMS. CELLUCCI