

Redford Tories debate multibillion dollar upgrader investment

Morton clarifies remarks on Alberta's involvement in North West refinery

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Following the Keystone XL pipeline delay, the Redford government is debating whether Alberta's treasury should be used to kick-start oilsands upgrading in the province - as the province has done on the \$5-billion North West refinery venture.

Speaking at The Energy Roundtable forum at the Ranchmen's Club in Calgary this week, Alberta Energy Minister Ted Morton said Tory cabinet ministers are embroiled in a "heated" discussion about how to boost the upgrading of bitumen to add value to the massive oilsands resource and keep jobs at home.

Morton spoke frankly on Tuesday about how going forward he favours a cautious approach given the billions the government has already guaranteed to the North West refinery.

"In my view, we've taken a very significant step in North West, we've taken some risk - which may be appropriate - but at this point, I'm not a big fan of taking additional risk. I want to see North West up and running."

The minister later told a Herald reporter: "We're guaranteeing at least \$4 billion worth of bonds or loans" on the North West project.

At the legislature on Wednesday, Morton said some of his earlier comments were incorrect. He clarified that the government is responsible for paying three-quarters of the debt from the North West refinery over a 30-year term through bitumen processing fees.

"Yesterday I said \$4 billion. I think that was a little off target. I think it's more like \$3 billion," he said.

Morton said it was also inaccurate to say that the government was guaranteeing bonds.

In the plan for the yet-to-be built refinery, in Redwater northeast of Edmonton, the government is expected to supply 75 per cent of the bitumen to the project through the Bitumen Royalty in Kind (BRIK) program - bitumen it receives as royalties. Corporate energy giant Canadian Natural Resources Ltd. (CNRL), a project partner, will supply the other 25 per cent of the bitumen.

The government will also pay 75 per cent of operating costs.

Under the 30-year deal between the province and North West/CNRL, the Alberta government expects to earn an extra \$200 million to \$700 million over the three decades by selling diesel from the North West refinery rather than raw bitumen.

But while there are financial and economic rewards in sight - including keeping the value-added jobs in Alberta - the government has to pay part of the costs of the 50,000 barrel-a-day facility, and also takes on a significant liability.

Bart Johnson, a spokesman for Alberta Energy, said that if the North West upgrader should get built and then fail - and halt the processing

of bitumen - the Alberta government would have to cover costs of debt taken on to build the upgrader.

"If the facility would stop operating, we would still have to pay the debt portion of the fees," said Johnson, who would not disclose intricate details of a debt financing plan the province signed with North West Upgrading and CNRL, for proprietary reasons.

Ian MacGregor, chairman of North West Upgrading Inc., a 50 per cent owner in North West Red Water alongside its equal partner, CNRL, said it would be inaccurate to call the Alberta government's financial obligation a "loan guarantee."

"There is a cost of service processing contract and that contract is very similar to other cost of service processing contracts that exist in industry," MacGregor said. "They pay a cost of service that gives the guys who built the plant a return on their capital."

For the North West upgrader, the government will pay about \$20 a barrel less than what a typical company would pay for bitumen processing over the 30-year life of the contract, MacGregor said, noting that the province's solid credit rating would allow the project proponents to get a better interest rate for debt that has not yet been sold or marketed to investors.

Speaking at a dinner in Edmonton on Wednesday, Premier Alison Redford responded to a question from the audience about upgrading, saying the government - especially in light of the Keystone delay - needs to consider whether there need to be more "value-added" approaches going forward.

"I don't want the government of Alberta to get into business on every one of those projects," she said, speaking of upgrading projects. "But I do think we can be bold and aggressive with respect to policy tools to make it more attractive for investors to come. Quite honestly, I don't think that as we moved through the North West upgrader discussion we actually took the time as a province to think about what we could put in place to allow the private sector to make investment decisions that would allow for upgrading to happen."

The boards of CNRL and North West Upgrading are expected to make a final investment decision on the project, currently in the engineering phase, early next year. Then a final deal with the province on what payments it would make for bitumen processing would be inked. The project is targeted to come online in 2014.

When he heard details of the deal, Wildrose party finance critic Rob Anderson said the Alberta government is treating government coffers like their own private investment account.

"If this is true, this has got to be one of the most insane risks this government could take on behalf of the people of Alberta," Anderson said.

Liberal finance critic Hugh MacDonald said he is in favour of the government's involvement, noting billions in oilsands projects wouldn't today be on the books without a kick-start from the province decades ago.

But MacDonald said the government needs to be open and transparent about telling Albertans "they could potentially be on the hook."