

The politics of pipeline permitting in North America



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President Barack Obama came to office in 2009 promising to do his part to stop global warming. Two years later, not only has Congress failed to pass any comprehensive carbon-reducing energy policy, but Mr Obama even failed to put solar panels on the roof of the White House by summer 2010 as he had promised. For their part, environmentalists have been focusing their anger on a project they fear will actually increase carbon emissions. The project – the Keystone XL pipeline from Alberta’s oil sands across the US to Texas refineries on the Gulf Coast – would be the third such pipeline importing what environmentalists always refer to as tar sands.

According to the IHS CERA consultancy, on a life-cycle basis fuels produced solely from oil sands result in 5 to 15 per cent more greenhouse gas emissions than the average crude oil refined in the US. But it also points out that the Canadian oil sands are poised to become the largest single source of foreign oil to the US market and building the pipeline will mean new jobs. The proposed US\$7 billion Keystone XL pipeline is among the biggest “shovel ready” projects in the US. At a time of weak economic growth and high unemployment, the question is whether the Obama Administration will put what environmentalists dismiss as the short-term gain in jobs before emissions, particularly when, they say, clean energy jobs are a more secure and long-term path for economic recovery.

The US Department of State must make a decision which route to take by year’s end. The last time Secretary of State Hillary Clinton was put in this position – less than a year after President Obama had taken over, in August 2009 – she approved the Alberta Clipper pipeline to carry oil-sands fuel from Canada into the US, saying, “approval of the permit sends a positive economic signal, in a difficult economic period, about the future reliability and availability of a portion of the United States’ energy imports.” The State Department noted the project would provide construction jobs for US workers. But this time around environmentalists insist the US already has two pipelines (the first was approved by the Bush Administration) bringing in oil sands fuel and does not need another. “We’re already taking as much oil as Canada can give us,” said Susan Casey-Lefkowitz, international programme director at the Natural Resources Defense Council, the environmentalist group.

Pipeline critics point to a series of spills from the first Keystone pipeline in its first year of service, which led US authorities to suspend its operation temporarily in summer 2010. TransCanada, which operates the pipeline,

gained approval to restart the Keystone pipeline within a few days and responded to concerns by noting the last incident, at a pumping station in Kansas, had involved less than 10 barrels of oil. “Almost all the oil releases over the past 12 months on Keystone have been minor – averaging just five to 10 gallons of oil,” according to Russ Girling, TransCanada’s president and chief executive. But that the first Keystone has suffered 12 spills in its first year remains a worry for Ms Casey-Lefkowitz, who fears they are the result of the highly corrosive nature of bitumen in the oil sands. This is of particular concern, she says, because the Keystone XL is to cross the Ogallala Aquifer, a freshwater source for eight states. “This is one issue where the president has total control – he has to grant or deny the necessary permits,” according to Bill McKibben, an environmental activist. “Congress can’t get in the way. It’s where Obama can get his environmental mojo back. But we need him to lead.”

The problem for critics is that the US has set a precedent by approving two previous pipelines to funnel oil sands into the US. Jim Vines, partner at King & Spalding in the Energy Environmental Practice, says it would be tough for the State Department to reject the Keystone XL on the grounds that it is any different. “Given high gasoline prices combined with high unemployment,” he said, “the public will demand convincing evidence in the public record that the Keystone XL is ecologically unsound before they buy the anti-oil sands environmental rhetoric.”

Yet a growing number of officials have spoken out against the 2,673km oil pipeline, including the mayors of 25 towns and cities, who wrote a letter on March 24 to Mrs Clinton, expressing concerns about additional tar sands oil imports: “We are concerned that expansion of high carbon projects, such as the proposed Keystone XL tar sands pipeline will undermine the good work being done in local communities across the country to fight climate change and reduce our dependence on oil. “The oil industry believes, despite the outcry, the pipeline will get built. Jim Mulva, chief executive of ConocoPhillips, said, “It’s very important to energy security. Any delay in infrastructure development has an impact on the flexibility of supply.” Given the rise in oil prices, spurring the International Energy Agency to release strategic petroleum reserves this year, there is no doubt energy security has grown in importance for the Obama Administration.

However, that it is a high priority has not translated into permitting unfettered drilling in the Gulf of Mexico,



which regulators have scaled back significantly since the Macondo disaster. And it has not meant promoting the use of natural gas with subsidies and incentives despite the rapid growth in supply brought on by technological advances. Indeed, the US has so much natural gas in the lower 48 states that it is moving to export it. And plans to bring gas down from Alaska through a massive US\$35bn pipeline are at real risk. However, in terms of natural gas, one of the two competing plans, by BP and ConocoPhillips, was cancelled in May after the oversupply of gas from shale pushed down prices so low there was insufficient demand for Alaska gas from gas shippers.

The other project, involving TransCanada, the Canadian pipeline company, and ExxonMobil, is moving ahead. Rex Tillerson, ExxonMobil's chief executive, has said the company still is interested in building a pipeline to bring gas out of Alaska down to the lower 48 states. "The gas has basically been developed," Mr Tillerson said. Oil companies have been pushing it back down into the ground to aid in enhanced oil recovery and could just as easily put into a pipeline and send it out of the state. "It would be a supply that would be available for years and years," he said. The big hurdle in accessing that supply in the lower 48 states remains Alaska's fiscal regime, which is uncertain, in addition to the regulatory and technical challenges involved in building the pipeline itself. But if that can be overcome, Mr Tillerson has said he believes "the gas can be competitive."

Whether the pipeline to get that gas down from Alaska to the lower 48 states will ever be built remains to be seen. Ms Casey-Lefkowitz notes tar sands development uses natural gas for fuel: "There are valid

concerns that expansion of the tar sands will mean Alaska natural gas feeding into Alberta and being used there as fuel. That means using a relatively clean fuel to make a dirty fuel and less natural gas coming to the US." But the merits of that is an argument for another day. For this year, the focus of both environmentalists and the energy industry is on the Keystone XL – a pipeline whose fate rests solely with the priorities of the Obama Administration. ■

