

**POLICY EVIDENCE OF THE
GOVERNMENT OF THE NORTHWEST TERRITORIES (GNWT)**

Q1. What is the GNWT's position on the construction of the Mackenzie Gas Project?

A1. On March 31, 2004 the members of the Fifteenth Legislative Assembly carried a motion to work cooperatively in support of the Mackenzie Valley Pipeline (MVP) development¹. The GNWT continues to support the development of the Mackenzie Gas Project.

Q2. Why does the GNWT support the Mackenzie Gas Project?

A2. The Mackenzie Gas Project will provide enormous opportunities for Northwest Territories (NWT) residents and other Canadians. This project is crucial to the socioeconomic future of the NWT's people and communities and is a cornerstone of the GNWT's plan for the present and future economic development in the NWT.

For the NWT public, the pipeline represents employment, investment, and business opportunities and the pride of becoming a net contributor to Canada's economic well-being. It offers self-reliance and the opportunity for NWT residents to provide a good standard of living and quality of life for their families. It provides the opportunity to diversify our economy. The pipeline and resulting exploration will lead to new business opportunities for NWT companies, including manufacturing and value-added opportunities. New infrastructure possibilities and options, such as the potential for a Mackenzie Valley Highway, will provide impetus to expand our bustling tourism industry.

The Mackenzie Gas Project is much more than the means by which specific natural gas reserves will be moved to southern markets. The project is the first step in connecting the significant producing region located in the NWT to North America's energy infrastructure. All indications are that there are very significant natural gas and oil reserves in the Mackenzie Delta and Basin and their development is a key to the economic future and prosperity of the territory. To realize that potential, it is crucial that the first major corridor be established appropriately and that the first major pipeline be viewed in the context of its long-term territorial significance.

That significance takes two forms. First, the anchor fields are anticipated to continue production for at least 20 years and a significant royalty stream will result. While the GNWT does not currently receive any benefit from royalty revenues, the GNWT is confident that current devolution discussions will lead to a more advantageous structure under which the royalty revenues available from production in the anchor fields will benefit NWT residents.

¹ Motion 6-15(3), March 31, 2004

Second, it is particularly important to consider the longer term in the context of this pipeline because of its basin opening potential. Just as the original oil discoveries in Alberta in the 1940s started an industry which is reaching its peak some 70 years later, the development of territorial oil and gas reserves has the potential to fundamentally alter the territory's place in the Canadian Federation over the very long term. The selection of the appropriate corridor and the appropriate project design to start this process will thus have very long-term implications. If the project is done right, those implications can be uniformly positive.

Q3. In what way does the pipeline support development other than of the anchor fields?

A3. The proponents of the MVP seek access to a very significant infrastructure corridor from the North. That corridor will be employed for the purpose of moving all natural gas, liquids and oil discovered in the North to the South and, as well, may evolve into a more general transportation corridor over time. For that reason, it is important to select the corridor wisely. In particular, the corridor should be selected to minimize costs of all types. Straight financial costs associated with the development of the corridor should be minimized so as to maximize the potential return from well head production that is available to be shared amongst all stakeholders. Costs with respect to environmental disruption or disturbance should be minimized, having regard to the long-term use of the right-of-way so as to preserve the North's unique natural environment and support its wildlife. Similarly, the route must be selected in a way that respects the significant socioeconomic implications that its selection will have for the communities and people of the North. Again, this selection must take place with a firm view on the long term.

Q4. Having regard to the long term, is it appropriate to position the NWT in general and the Mackenzie Delta in particular as a major source of natural gas for North American markets at this time?

A4. Yes, the time has come for the development of this basin.

From an economic perspective, Delta Gas is the next logical extension of the significant development of the Western Canadian Sedimentary Basin that has occurred over the past 70 years. The Delta is a significant resource and likely the one that can be developed most quickly and efficiently as an extension of conventional North American reserves. However, it is by no means the only resource. The large reserves in Alaska and the large potential for natural gas to enter the North American market as liquefied natural gas (LNG) mean that there is no guarantee the Delta reserves will be developed. In fact, if they are not developed now, they likely will not be developed for many years to come and potentially might never be. This would be a loss of very significant proportions for the residents of the North.

Q5. Are there specific markets that you believe Mackenzie Basin reserves are particularly suited to serve?

A5. No. The Mackenzie Basin reserves are a long-term resource that, over time, will find their way to very diverse markets. The GNWT believes that the MVP should give these reserves access to as much of the North American market as possible and that market economics should be allowed to determine the use of the reserves thereafter. The robust trading hub at the Nova Inventory Transfer (NIT) is one means to facilitate this result and the GNWT supports this or any other initiative that will serve to optimize the market value of NWT resources.

Q6. Is the development of the Delta natural gas reserves compatible with the GNWT's position on climate change?

A6. The GNWT takes the view that climate change is a serious concern that could in future significantly disrupt the global environment, affecting the ability of NWT residents to lead healthy and productive lives. This potential disruption of our environment compels the GNWT to support global and local actions to reduce emissions of the greenhouse gases believed to cause enhanced climate change.

The GNWT accepts the scientific evidence and traditional knowledge showing that the effects of climate change will likely be more severe in the North than in other parts of the country. The impact of climate change on the North's natural environment and people with traditional lifestyles is a vital concern of the GNWT.

For these reasons, the GNWT supports the development of territorial gas reserves to increase the availability of cleaner energy sources for territorial, Canadian and North American markets. Natural gas is a cleaner burning fuel than coal and oil and is a "bridge" that will help North America meet its energy needs as it moves away from the heavier, more carbon intensive fuels. The addition of a new supply of gas from the Mackenzie Valley will help to restrain gas price increases, improving the position of natural gas as an attractive alternative to coal and oil. For example, in the NWT, the availability of natural gas may present an opportunity for some diesel-powered electricity generation and fuel oil heating to be replaced by natural gas. Such substitutions would result in significantly reduced greenhouse gas emissions on a national scale. Accessing Mackenzie Valley natural gas sources will increase Canada's security of supply and support both national and international efforts to reduce greenhouse gas emissions by enabling the U.S. and Canada to replace coal and diesel-fired power sources with natural gas.

Q7. What steps has the GNWT taken to address climate change?

A7. In 2001, with the participation of more than 40 federal and territorial organizations, industry, and environmental groups, the GNWT coordinated the development of the 'NWT Greenhouse Gas Strategy'. The Strategy included an Action Plan to mitigate

or reduce greenhouse gas emissions in the NWT. The NWT has since experienced a number of successes in reducing the output of greenhouse gases across the territory.

Q8. What is the GNWT's position on greenhouse gas emissions caused by the construction and operation of the proposed natural gas pipeline?

A8. We recognize that the construction and operation of the pipeline will cause a considerable increase in greenhouse gas emissions within the NWT. We believe that these would be more than offset by the use of natural gas in southern markets.

The GNWT supports a pipeline design in both the construction and operation phases that will minimize greenhouse gas emissions to the extent feasible.

Q9. Are there any other considerations that the Board ought to have in mind when considering the timing of this application?

A9. Yes. When the MVP was mooted in the 1970s, Mr. Justice Berger concluded that the time was not right for development because land claims had yet to be resolved and the government institutions in place at the time were not adequate to cope with the significant impacts anticipated from the construction and operation of the pipeline. Since Mr. Justice Berger reached those conclusions, there has been fundamental change in the North.

First and foremost, comprehensive land claims have been settled in three of the four regions through which the route passes. Second, the GNWT has evolved significantly and its ability to anticipate the effects of major construction is much greater than it was in the 1970s. The capacity of the GNWT to cope with the anticipated impacts is conditional upon appropriate financial arrangements being in place to provide the GNWT with adequate resources. While these financial arrangements are still being developed in negotiations with the Aboriginal Summit and the Government of Canada, as well as the Applicant, the GNWT is confident that the issue will be successfully resolved. Third, the project proponents are much better equipped to deal with both the environmental and socioeconomic impacts resulting or arising from pipeline construction and operation than they were 30 years ago because of the much greater industry experience in operating in northern environments.

Q10. Please elaborate on the status of land claims.

A10. In 1977, the Berger Inquiry recommended a 10-year moratorium on pipeline construction in the Mackenzie Valley to allow aboriginal groups an opportunity to settle their land claims. In 1984, the NWT saw the resolution of its first land claim, the Inuvialuit Final Agreement.

In 1988, the Dene-Métis Comprehensive Land Claim Agreement-in-Principle, covering the remainder of the NWT, including the Deh Cho, was signed. Later that year, the Dene withdrew from negotiations and a final agreement was not concluded.

In April 1992, the Gwich'in signed a comprehensive land claim agreement, followed by the Sahtu in September 1993. This left the Deh Cho region as the only aboriginal group on the planned pipeline route that had not signed a land claim agreement.

In 1998, the Deh Cho First Nations returned to the negotiating table as participants in the "Deh Cho Process". The Deh Cho Process has since passed a number of milestones on the way to a negotiated settlement of their land claim. A Deh Cho Framework Agreement and Interim Measures Agreement were signed in May 2001. On April 17, 2003, the Deh Cho signed an Interim Resource Development Agreement (IRDA) and an Interim Land Withdrawal Agreement (ILWA).

In contrast to the situation in 1977, the IRDA and the ILWA now give the Deh Cho a number of the rights and benefits that may be found in a final land claim agreement, including a share of resource revenues from development in the Mackenzie Valley, and a say over resource development in the Deh Cho.

The GNWT is a participant in and a strong supporter of the Deh Cho Process. At this time, it is difficult to foresee when the Deh Cho Process will conclude. The GNWT is committed to concluding the Deh Cho Process. However, 30 years after the Berger Inquiry's report, taking into account the public interest, the GNWT cannot agree that a single community or region should have a veto over approval of the proposed project.

Q11. Is the GNWT's support for the Mackenzie Gas Project unconditional?

A11. No. There are a number of conditions that must be met to permit the GNWT to continue to support the project. First, we must have the assurance that the construction and operation of the project will be undertaken in a way that is environmentally and economically sustainable. Second, over time, we must be convinced that benefits of northern development accrue to NWT residents. Third, the project must be undertaken in a way that encourages exploration and development of the Basin on as broad a basis as possible.

Q12. What does the GNWT suggest should be done to ensure that the project is undertaken in an environmentally and socioeconomically responsible way?

A12. The cooperation agreement that led to the establishment of the joint review process was a major step in that direction. This Board will have the benefit of in-depth recommendations from the Joint Review Panel (JRP) and significant weight should be given to the recommendations of that Panel in considering what terms and conditions should attach to any certificate issued by this Board. In addition to the recommendations of the JRP, the GNWT is in the process of negotiating a socioeconomic agreement with the project proponents to provide for a follow-up program in contractual form to support the orderly delivery of necessary support and social services in connection with the activities generated by the project. In that regard, the GNWT believes that the project proponents' right to construct and operate

1 the project should be subject to ongoing compliance with the terms of the agreement
 2 they reach with the GNWT. For that reason, the GNWT intends to ensure that the
 3 socioeconomic agreement is finalized and filed with the Board prior to final argument
 4 and will request of the Board in argument that any certificate issued to the project
 5 proponents be made subject to compliance with specific socioeconomic
 6 commitments.

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 8 The GNWT does not intend to lead specific evidence with respect to the design of the
 9 pipeline, but asks the Board to carefully consider the evidence before it to ensure that
 10 the design is appropriate, bearing in mind the potential of the entire basin. The
 11 pipeline needs to be in the interest of the public as a whole, not just the interest of the
 12 project proponents.

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 14 Finally, with respect to toll design, the GNWT feels very strongly that access to such
 15 a significant corridor as the Mackenzie Valley ought only be given to a project
 16 proponent that is prepared to develop it in the interests of all present and future users.
 17 Thus, terms and conditions of access, toll levels and design are all very important
 18 considerations for the Board. The balance of the GNWT's evidence deals with its
 19 specific concerns and recommendations in those areas.

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 21 **Q13. Does the GNWT have any specific perspectives on tolling principles that are**
 22 **relevant to the MVP?**

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 24 A13. Yes, the GNWT believes that the tolling principles should foster the long-term
 25 objectives discussed in this evidence. Messrs. Priddle and Taylor will elaborate on
 26 how the access, toll and tariff principles can do that. However, there is one aspect of
 27 toll design that the GNWT believes it is particularly able to comment on.

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 29 **Q14. What aspect is that?**

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 31 A14. Natural gas is a valuable commodity for all those fortunate enough to receive it. The
 32 MVP will facilitate this benefit being conferred on many millions of consumers in
 33 southern Canada and in the United States. It would be ironic indeed if the benefit
 34 were denied to the residents of the NWT.

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 36 To avoid this result, the GNWT believes it is imperative that the toll design on the
 37 MVP facilitates the service of local communities. The adequacy of what the
 38 proponent has proposed in this respect is a technical subject that is best left to the
 39 experts. However, the GNWT strongly encourages the Board to take all reasonable
 40 steps to encourage local use of natural gas through appropriately designed tariffs on
 41 the pipeline.

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 43 **Q15. Does that complete the policy evidence on behalf of the GNWT?**

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 45 A15. Yes.