

COMMENTARY

Gas will fuel province's growth

HON. CRAIG LEONARD
COMMENTARY

Editor's note: The following speech was delivered before the Saint John Board of Trade on Oct. 30.

Thank you for the opportunity to be here today to discuss and update you on the progress we are making in the Energy and Mines sector in New Brunswick, and how our activities are setting the stage for what we know can be a remarkable economic turnaround in this province.

The Department of Energy and Mines has certainly been an area of much activity over the past three years and I am extremely proud of our team and the work we have completed to date.

Over the past three years, our government has:

- Developed the Energy and the Oil and Gas Blueprints, New Brunswick's long term visions and short term action plans for these sectors;

- Delivered on a three year electricity rate freeze while recording profits every year;

- Reintegrated NB Power into a more efficient and cost effective model;

- Developed the new Rules for Industry for Oil and Gas;

- Created the Large Industrial Renewable Energy program that is saving forestry companies millions;

- And the list goes on.

Throughout the past few years, we have also been able to identify opportunities in our province that could dramatically reshape our future.

The most recent opportunity that presented itself to New Brunswick is of course the Energy East Pipeline project.

I have been privileged to have been part of the team from our government and our role in bringing the project to fruition, whether it was meeting with producers in Calgary with Irving Oil, travelling with Premier Alward to pitch the benefits of New Brunswick to Premier Redford and her government, or meeting with TransCanada with Saint John Mayor Norton and the team from the Port of Saint John as we sold the city's advantages.

I'm sure many in the room have heard this many times by now, but the pipeline project is uniquely positioned to strengthen both our provincial and national economies by opening up new global markets and accessing better pricing for Canadian crude oil, and will provide the infrastructure required for future investments to take advantage of our geographic position in the global petroleum supply chain.

This new export opportunity makes it very clear that we continue to grow our export potential in NB, and energy projects like the pipeline will ensure we are a critical part of the distribution of Canadian natural resources to the rest of the world.

Now, as you may have heard over the past few weeks, we are also looking to develop another industry in the oil and gas sector in this province.

Despite the fact that our province has a long history of oil and gas production - our earliest well dates back to the 1860s - and while we have seen the growth of residential, commercial and industrial consumption of natural gas as an energy source, we are still a very small player in the oil and gas productions sector.

But that is precisely what we hope will change in the years ahead.

And much in the way Energy East is the infrastructure that could lead to larger oil based investments in the future, having a stable, domestic source of natural gas in New Brunswick would open the doors to significant investment as well.

Why natural gas?

While it is hardly a question of too many riches, the economic potential for our natural gas industry has been somewhat overshadowed by the sheer number of exciting projects we have on the go in the province.

Compared to a \$2 billion pipeline or a half billion dollar mining project, a few test gas wells might not seem like much.

But the reality is that developing our natural gas industry has the potential for just as many investments and jobs, if not more, as any other project we are developing in the province.

So what I want to do today is take you through the natural gas file and pull some of the pieces together so you can see the massive potential this resource will provide.

Let's start with where we are today.

New Brunswick currently has 30 gas wells - and yes, all of those wells have been hydraulically fractured with no problems whatsoever - producing 10



Craig Leonard. PHOTO: GREG WESTON/TELEGRAPH-JOURNAL ARCHIVE

million cubic feet per day in the Sussex area, and 16 producing oil wells in the Hillsborough region.

But our existing natural gas reserves are estimated to be in the range of 80 trillion cubic feet and that does not include anything that SWN Resources Canada might find in their exploratory program.

This reserve puts us in the same ballpark as many significant gas producing regions in the US and Western Canada.

Because of the size of the resource, it is entirely feasible that within a few years we could see the start of drilling programs that could substantially increase our well count, gas production levels, and lead to not only solving some current issues we have when it comes to gas supply, but provide some significant possibilities for new investment as well.

Today, we are facing a gas supply problem.

Our main source of gas, offshore Nova Scotia is running out.

That is problematic because while that supply has been decreasing, demand for natural gas has been rapidly increasing throughout North America and as I indicated before, the same is true for New Brunswick.

Most of the continent is awash in cheap shale gas, which provides most areas the opportunity to reduce energy costs by using gas for their energy needs, and reduce GHG emissions by transitioning from coal to natural gas.

However, without our own domestic source, we face a problem - a very expensive problem. A lack of pipeline capacity in New England has made it difficult at times to source gas in that region from the low priced regions such as Pennsylvania.

For example, last winter, the \$3-\$4 gas we often hear discussed was selling in Massachusetts for a few days at \$33 due to the severe supply issues the market faces at certain times of the year.

And without new regional sources coming on line, this problem is not going away.

This shortage affects current industry in a significant manner.

Potash Corp partners with Corridor Resources in Penobscot and actually takes gas directly from Corridor to use in the Potash plant.

Yet wells eventually run out of gas and PCS needs to find a new source of supply.

Fortunately, I'm very pleased that Corridor has recently submitted an EIA application for two new wells, one of which they will partner with PCS to provide the company with the gas they need to operate in a competitive manner and maintain the hundreds of jobs they support in the Sussex region.

This arrangement shows the interdependence of the projects that we are trying to move forward in New Brunswick.

And the projects we see in the future take this even further.

We can follow the Corridor and PCS example to an industry that we want to see developed right here in Saint John.

A low cost, stable, domestic supply of gas in the province provides the low energy costs.

The potash PCS mines and processes provides the raw material.

The geography of the Port of Saint John provides the global access.

Put them together and you have the reasons why multiple foreign investors want to establish fertilizer plants in Saint John.

Each of these projects can represent investments in the billions and hundreds of long term jobs. But again, it doesn't happen if we can't offer that key factor - low energy costs due to a stable, low priced source of natural gas.

THE REALITY IS THAT WE AS AN ENTIRE PROVINCE - FRANCOPHONE, ANGLOPHONE, FIRST NATION AND NEWCOMER - WE SEEM TO BE APPROACHING A CROSSROADS. AND THE DECISION THAT HAS TO BE MADE IS WHETHER WE CONTINUE TO SAY NO TO THE VERY SAME OPPORTUNITIES THAT HAVE CREATED THE STRONGEST ECONOMIES IN NORTH AMERICA, OR DO WE FINALLY SAY YES?

GAS FUELS DEVELOPMENT

Irving Oil CEO Paul Browning spoke at the Energy Summit here in Saint John a few weeks ago about the necessity for the refinery to have access to low priced natural gas not only to maintain current competitiveness levels, but also to take advantage of the potential investments the Energy East project will afford to Irving Oil.

Through these examples we can see that this competitively priced, stable, domestic source of gas is critical to not only maintain our current processing and manufacturing operations, but also to build the new opportunities that are in front of us.

This is not to say gas is just an industrial input. We will also derive significant benefits from revenues earned from the sale and transportation of natural gas.

To this end, being the only LNG terminal in Canada puts Canaport LNG in a very unique situation with a large part of the infrastructure required for an export facility already established.

We simply have to look at the 30 LNG export projects currently on paper across North America to understand the opportunity for profits that exist in the global market.

While most North American markets are enjoying \$3-\$4 natural gas, many countries around the world are paying \$10-\$15 for their natural gas.

Clearly, there is a profit to be made for the companies and jurisdictions that can supply, what is an insatiable appetite for natural gas around the world.

And of course, the higher the selling price, the more revenue the government can earn from royalties on the resource.

On that note we will be coming

forward with our natural gas royalty regime next week at our Exploration and Mining Conference in Fredericton.

The goal of the program is to attract investment to the province while ensuring New Brunswick earns its fair share of revenue from our resource over the lifespan of a project.

So when we add all of these investments up, we can see the true potential of natural gas development in New Brunswick.

The investment required for just one moderate drilling program of 50 wells per year over a twenty year period would be \$11 billion to \$12 billion.

Investments in manufacturing, pro-

cessing and transportation that are very likely with development are in the area of \$5 billion to \$6 billion.

Royalties from this project would be \$1.5 billion to \$2 billion based on current price projections.

The benefits of securing a source of gas that would allow for prices to gravitate towards the North American level would lower energy costs and provide incentive for more manufacturing investment in the province bring more jobs and revenues and the resulting income, corporate, and property taxes.

These numbers speak to why our government is so adamant in the face of the opposition to natural gas development.

The cost of not moving forward is simply too great.

SAFETY? LOOK AT THE DATA

And there is no good reason not to as we have a safe and responsible record in natural gas development in New Brunswick.

This was confirmed earlier this year with the release of a Geological Survey of Canada study that found that there had been no impact on water in the McCully field area from natural gas drilling.

Premier Clark from British Columbia provided a great example of this when she spoke of their experience, pointing to their record of safety with over 50,000 wells developed with no issues.

That fact is a testament to the strong rules and regulations Canadian jurisdictions have in place.

And we in New Brunswick, and certainly in Saint John, have a long history of the same kind of responsible industry.

To further ensure the safe and responsible development of our natural gas resource, we in New Brunswick have established what are accepted as the strongest regulations in North America.

Yet as I have stated before, facts like

these are of little concern for many of those who oppose these energy projects, since for them, the end of delaying or halting projects justifies the means of publicly spreading misinformation.

For example, opponents of development claim increased use of natural gas will cause climate change issues.

But the reality is, increased use of gas has led to a decreased use of coal worldwide which in turn has caused U.S. CO2 energy emissions to drop approximately 15 per cent over the past six years - primarily due to increased natural gas use displacing coal.

There are also claims that water resources will be depleted due to the amounts required for natural gas development.

Yet a shale gas industry of the size we are discussing of 50 wells per year in New Brunswick would use less than one quarter of one per cent of our annual rainfall and recycling of fluids could reduce that amount even further.

Some say that the same expanded natural gas industry would industrialize rural New Brunswick, but in reality, 50 wells would leave a total footprint of less than a square km.

That is not to say there are no risks, but to say the risks are any greater than another industrial activity is misleading and false.

OPPORTUNITY FOR FIRST NATIONS

Opposition to this development can also be found in our First Nations in New Brunswick and is manifesting itself through discussions on treaty rights and traditional land use.

The recent events in Rexton are regrettable; there is no question about that.

But it has brought to the forefront the very questions that we have been working with First Nations through the Assembly and individual chiefs and councils to find answers for.

We as government have been engaging and consulting with First Nations and the public regarding natural gas for the past three years.

But engagement and consultations on a much wider range of topics, including ways to ensure First Nations can benefit economically and socially from resource development, have been occurring over the same timeframe.

Of course, the reality of the situation is that we are not going to change centuries of history with gas development.

But gas development can change the future for First Nations.

We want gas development to help create the First Nations businesses that can supply the industry and create the good paying jobs that First Nations workers can fill.

With unemployment rates of up to 85 per cent on some First Nations, it is clear these opportunities cannot be passed by.

We want to tap into the labour force in First Nations, to not only improve the lives of those individuals but their families and communities as well.

SEIZE THE OPPORTUNITY

But the reality is that we as an entire province - francophone, anglophone, First Nation and newcomer - we seem to be approaching a crossroads.

And the decision that has to be made is whether we continue to say no to the very same opportunities that have created the strongest economies in North America, or do we finally say yes?

If we continue to listen to those voices that always say no, we will continue to see New Brunswickers leave the province for the West.

We continue to see families separated for weeks and months.

We continue to lose our young people due to a lack of opportunity.

We will continue to see all of this happen because people keep saying no.

Our government believes it is time for all New Brunswickers to start saying yes to the opportunities that have created "have" economies in Saskatchewan and Newfoundland.

It's time to say yes to the opportunities that make Alberta and British Columbia the strongest economies in Canada.

And it is time to say yes to the opportunities that will bring our people home, provide them with jobs, and help us build a better tomorrow for our province.

As Premier Redford of Alberta, stated in a speech last year, the "have" economies of the future will be energy and natural resource based economies.

And rest assured, those "have" economies will be guided by people who say yes to the opportunities they are provided.

Thank you.

The Hon. Craig Leonard is New Brunswick's Minister of Energy and Mines.