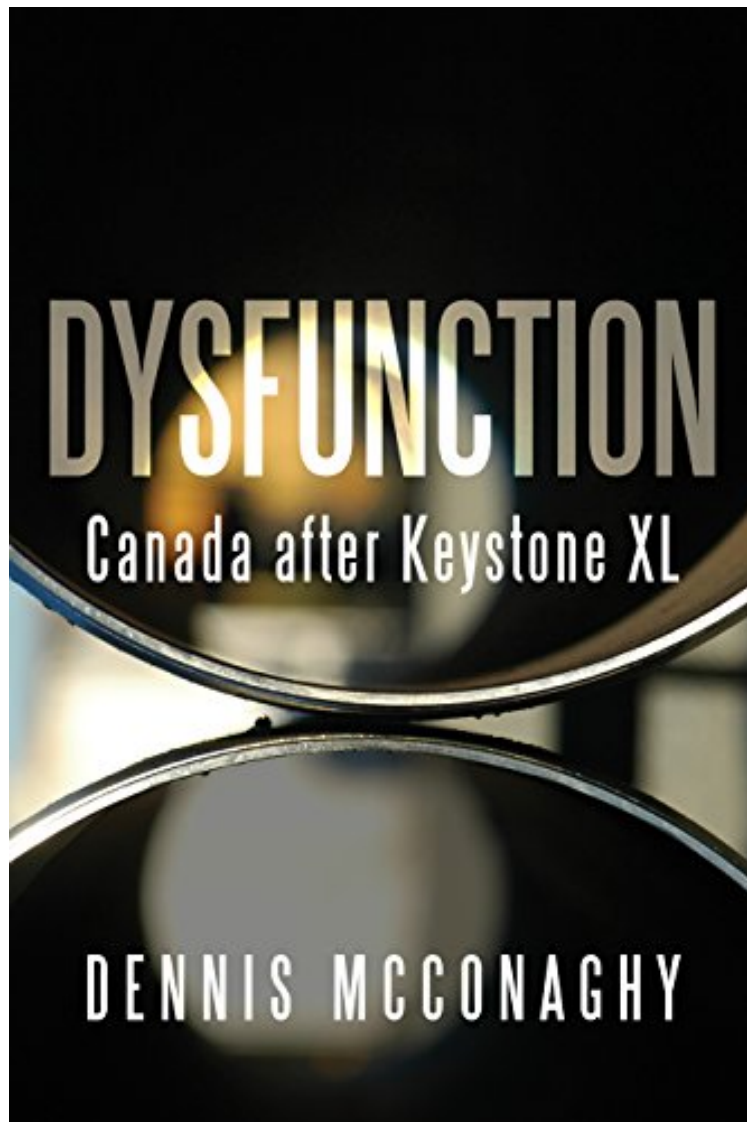


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Dysfunction: Canada after Keystone XL

Dennis McConaghy

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Dennis McConaghy : Dysfunction: Canada after Keystone XL before purchasing it in order to gage whether or not it would be worth my time, and all praised Dysfunction: Canada after Keystone XL:

The Keystone XL pipeline was most controversial North American energy infrastructure project of our time, and its history and demise serve as a cautionary tale for Canada, a country that will remain mired in regulatory dysfunction until it finds common ground between economic value and credible carbon policy.

While many will find the policy prescriptions offered by McConaghy contentious and difficult, his book presents an unparalleled opportunity to view the denouement of the Keystone XL pipeline from inside the executive suite of TransCanada. (Andrew Leach, Professor, University of Alberta, and Chair, Alberta's Climate Panel) Dennis McConaghy writes compellingly about the series of errors by corporate executives and politicians alike that led to the eventual rejection of the Keystone XL pipeline. Ultimately, Canada failed to achieve its economic interests because it failed to account for environmental interests. McConaghy suggests a better approach would be to implement an effective climate policy, based on a carbon tax, in exchange for an explicit commitment to market access. Many will question whether this trade off is workable or even desirable, but as Dysfunction documents, the failure of the status quo is beyond doubt. (Mark Cameron, Executive Director, Canadians for Clean Prosperity) There's plenty of valuable insight in a new book on the Keystone XL pipeline's death (Power Play with Don Martin, CTV) Dysfunction offers a courageous, insider perspective on the political theatre in the United States that led to the rejection of Keystone XL and a path forward for Canada's similarly challenged, yet vital, proposed bitumen pipelines. It's a must read for those wishing to understand the complexities of Canada's oil sands industry, why it needs pipelines, and why the dysfunction that has prevailed needs to be addressed urgently and fairly by Canada's political leadership. (Claudia Cattaneo, National Post) A blow-by-blow account of the obstacles Calgary-based TransCanada faced and overcame as it sought approval for the 1,900-kilometre line that McConaghy argues would be the safest ever built in North America. (Calgary Herald)...a fascinating read about the Keystone XL saga from an insider's perspective. Whether one agrees or not with his policy conclusions, the book is a tour de force in explaining dysfunctional policy decision-making that has led to the undermining of regulatory processes for resource projects in North America. Surely, we can do better. (Jack Mintz, President's Fellow of the School of Public Policy, University of Calgary) About the Author Dennis McConaghy is a Canadian energy executive with nearly forty years of industry experience in infrastructure development. As one of the senior executives of TransCanada Pipelines, he was directly involved in conceiving and executing the Keystone XL pipeline project. He lives in Calgary. Excerpt. copy; Reprinted by permission. All rights reserved. I The story of Keystone XL began back in the early part of 2007. At that time, my colleagues at TransCanada and I believed that the company would be able to simply apply to the appropriate regulatory entities for necessary permits, and then, within a reasonable time frame, proceed with constructing KXL. Operations would likely begin, we believed, as soon as late 2012. In our estimation, KXL had no fundamentally special elements differentiating it from comparable pipelines that traversed most of North America. It was merely a logical extension of the base Keystone system, for which the company would soon receive the necessary permits from the same regulatory entities that would next adjudicate KXL. Construction of base Keystone would commence while we prepared and submitted the regulatory applications for KXL. Base Keystone was to connect the Alberta oil sands to the United States mid-continent, and KXL would extend that reach to the U.S. Gulf Coast. That market access and the overall scale of the project were enormously significant for the Alberta oil sands industry's long-term economic prospects. At TransCanada, we were genuinely excited about the project, as a private economic opportunity and also as essential infrastructure for Canada. 7 TransCanada applied for permission to build KXL in September 2008, 8 and even in mid-2009, no one seriously imagined that this pipeline project might be rejected. Yet when I retired in mid-2014, the approval still remained unresolved, despite over five years of review. The project needed a presidential permit from Barack Obama to cross the Canadian border into the United States ? a permit that was supposed to be predicated on an environmental impact assessment and a National Interest Determination (NID) process led by the U.S. Department of State (DoS). The U.S. government's vesting of the final decision with the president himself was meant to expedite the approval process, but in this case leaving the decision with the president had had the opposite effect. When I retired in late 2014, I had come to the view that the Obama administration would likely reject the project, despite the DoS's two separate, extensive environmental assessments, in 2011 and 2014, that consistently found the project environmentally acceptable, albeit with certain special operating conditions, to which TransCanada had agreed. 9 Environmentalist resistance to the project and the president's response to that resistance had, incredibly, proved decisive. It was a triumph of symbolism over substance and reasonable expectation of due process. So, when the project I had so enthusiastically contributed to conceiving and planning, the project that had once seemed so valuable for the continent, and especially to Canada, my company, and, yes, me personally, was formally rejected, I asked myself the questions I had pondered so many times: How and why did this happen? Why did TransCanada persist so intensely? Why did we meet ultimate failure and unprecedented notoriety? These questions deserve substantial analysis and rationalization. The first part of this book sets out to provide that, directly and fairly. II A specific confluence of events precipitated KXL's demise ? Nebraska's resistance to the company's route through the state, the breakdown of the Kyoto Treaty and subsequent failure of the 2009 Copenhagen conference to find a viable alternative, U.S. Congress's 2010 failure to enact an economy-wide cap-and-trade bill to deal with carbon emissions, a few highly publicized oil spills, the basic reality of the higher carbon intensity of oil sands-derived crude oil, a regulatory process vesting ultimately with President Obama, and failure in both countries to find an accommodation to rationalize its approval. Was this pipeline's rejection an anomalous experience or a harbinger of things to come? Has social acceptance of the oil sands resource been lost? The

Alberta oil sands resource offers Canada a great economic opportunity; more than \$200 billion of investment in production and related facilities over the last twenty years is a testament to that.¹⁰ In 2016, notwithstanding current low commodity prices, production has continued at over two million bbl/d.¹¹ Without KXL, is Canada prepared to go forward with alternatives such as the Northern Gateway, Energy East, and TransMountain pipeline projects? Although those projects may not represent the same value to Canada as KXL could have, the economic potential of the oil sands resource cannot be realized without them. Of course, if Canada fully exploits this potential, Canadian carbon emissions will grow; that is an inescapable reality in the short and medium term.¹² We need to rationalize that growth to a world committed to dealing with the risk of climate change. Producing and consuming hydrocarbons cause increasing risk of climate change. Yet, those hydrocarbons still provide great economic value. Whether the world can significantly decrease its demand for hydrocarbons, especially crude oil and natural gas, over the remainder of this century is an open question. As well, it must be conceded that the oil sands resource emits more carbon on a unit basis than most other crudes in its production processes. This carbon intensity is perhaps the fundamental reason for the unique hostility directed at this Canadian resource, culminating, even within Canada, in an implacable resistance to its exploitation. However, Canadians should be able to support hydrocarbon development, provided the country adopts a credible and proportionate carbon policy. Unfortunately, this is not the case at present. The hydrocarbon industry and several successive governments have failed to show Canadians adequately that resource development not only serves their economic self-interest but can be managed within an acceptable climate-policy framework, comparable and proportionate to those embraced by other relevant countries, especially the United States. Canadians remain largely misinformed about oil sands carbon emissions and the economic consequences of extreme carbon policy. Sadly, much of the animosity over the oil sands is now aimed at obstructing the regulatory processes related to hydrocarbon infrastructure, with opposition to KXL serving as the template for that larger struggle. National, non-partisan regulators adjudicate the costs and benefits of hydrocarbon infrastructure projects, but their authority is increasingly diminished if not entirely undermined by legal obstruction, outright civil disobedience, and a lack of political will. Dysfunction has become the default. How much economic opportunity is Canada prepared to lose? The demise of KXL should force Canada to come to terms with the difficult issues created by the loss of that project. The second part of this book is dedicated to confronting those issues. What has the pipeline's demise cost Canada? What can, and must, Canada learn from the experience? Do Canadians agree with the reasons President Obama gave when he rejected KXL? Where do we stand on our other pipeline projects, such as the Northern Gateway pipeline through British Columbia and Energy East to New Brunswick, in the wake of KXL's demise? Even more fundamentally, where does Canada stand on hydrocarbon development at all?