

# The APG: An Exceptional Deal

## **A Presentation To The Senate Standing Committee on Energy**

8 Mar 2004

Good morning.

This morning I will introduce you to the Aboriginal Pipeline Group, a unique alignment of three of the four Aboriginal Groups in the Mackenzie Valley.

Our mandate is to maximize the long-term financial returns to the Aboriginal Groups of the NWT through ownership in the pipeline.

The APG is a business deal that will provide a source of revenue to Aboriginal people today and in the future, and which will allow many of the challenges facing Northern Aboriginal people, such as housing, education, and health care, to be addressed in a meaningful way.

The genesis of the APG took place in January, 2000, when Chief Harry Deneron called Aboriginal leaders from throughout the NWT together for a meeting in Fort Liard.

That was followed by a meeting in Fort Simpson in June of the same year, formally establishing the Aboriginal Pipeline Group, or APG, pledging to maximize the long-term business opportunities to the Aboriginal Groups of the Northwest Territories through ownership in the pipeline.

Just a year later, in June of 2001, the group had negotiated a Memorandum of Understanding with the Mackenzie Delta Producers - Imperial Oil, ConocoPhillips, Shell and Exxon Mobil - who were planning a pipeline to connect their natural gas reserves in the Delta to the North American pipeline grid. That agreement established APG's right to own a one-third interest in the Mackenzie Valley Pipeline.

To exercise that right however, APG needed money and it took two full years to find it. In June of 2003, APG announced it had obtained funding from TransCanada Pipelines for the pre-development phase of the Project.

By August of that year, we had arranged a complete funding package from the Delta Producers, and the Federal and Territorial Governments, thereby becoming a full one-third partner in the Mackenzie Valley Gas Pipeline.

This is a business deal that has been negotiated by Aboriginals for Aboriginals. Our Board of Directors that negotiated this deal was 100% Aboriginal at that time.

Now that our position in the Project is firmly established, we are turning our attention to arranging the long-term financing required to pay for our share of construction costs.

The deal itself is quite simple. APG borrows money to support our investment in the pipeline from a consortium of banks.

The long-term firm shipping contracts signed by the Delta Producers and others to transport their gas from the Delta to Alberta will form the security for these loans.

The loans are repaid from our share of the pipeline revenue.

Funds remaining after APG's loan repayment and administrative costs are distributed to our shareholders in the form of dividends.

As a result of enhancements negotiated to the original Memorandum of Understanding, APG's ownership and dividends will grow as pipeline volumes increase, and APG has ten years from the commencement of pipeline operations to reach its ultimate ownership position.

At a pipeline throughput of 1 Billion cubic feet per day (a conservative estimate of gas volumes at start-up) annual dividends are estimated to be \$12.5 million per year, increasing to over \$21 million per year as pipeline volumes move up to 1.5 Billion cubic feet per day.

Once our loans are repaid, dividends to shareholders will increase even further, potentially to as much as \$100 million per year.

These are very significant numbers. The dividends will be distributed to shareholders according to pipeline distance through each Aboriginal region - but only to those groups that have formally signed on as shareholders of the APG.

I mentioned earlier that three of the four Aboriginal Groups in the Mackenzie Valley have signed on - the Gwich'in, the Inuvialuit and the Sahtu.

While we have an open invitation to the Dehcho, they have indicated that their land claim and self-government initiative (the Dehcho Process) is a top priority for them.

Because of this, they have not been willing to cooperate with either the Pipeline Project or the APG, and in fact are using the pipeline project as leverage in their claims negotiations with Ottawa. They have now filed for an injunction to stop the regulatory process that is already underway for the Project.

I am concerned that the Deh Cho action and the lack of progress on the Dehcho process have the potential to significantly delay this important project - a delay that could jeopardize both the Project itself and the significant benefits that APG's ownership in the pipeline would bring to NWT Aboriginal Groups.

It is essential the Government of Canada work with the Deh Cho to resolve their differences and allow this Project to move forward.

APG's participation as an owner in the Mackenzie Gas Project is an opportunity to change the way things have been done in the North.

The Aboriginal Groups in the Mackenzie Valley no longer have to stand by and watch resource development take place - they can now play a meaningful role in making it happen.

As a one-third owner, we have a seat at the Board table of the Mackenzie Gas Project, and have a strong voice in the development of this major project.

And from the first day that gas flow commences, APG will deliver significant dividends to its Aboriginal shareholders - dividends that will continue for many years to come.

APG is not just a good deal - it is an exceptional deal for the Aboriginal Groups in the Mackenzie Valley.

Bob Reid