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Gaz Metro seeks more sources of supply

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Freelance

Thursday, March 19, 2009

With demand for natural gas expected to grow strongly in the next decade, Gaz Métropolitain wants to increase its sources of supply.

That's one reason the utility is a partner in the proposed Rabaska liquefied natural gas terminal near Quebec City - a project now on hold.

It's also why Gaz Metro wants to help companies exploring for gas in the St. Lawrence Valley between Montreal and Quebec City.

The so-called Utica shale deposit, which could be one of Canada's largest gas fields according to preliminary estimates, "is right in the middle of the territory already served by our network," chief executive Sophie Brochu said at yesterday's annual meeting.

While the utility is not in the exploration business, it's definitely in the pipeline business and is already looking at what can be done to support natural gas production in Quebec.

Last spring, Forest Oil of Denver announced an estimate of 4 trillion cubic feet of natural gas on claims held with partners in the Yamaska region on the south shore. Several other exploration companies are active in the area.

If exploration results are positive, natural gas extraction could begin quite soon, Brochu said.

And Gaz Metro would be ready to invest in the necessary pipeline links.

The Utica shale deposit is just one element in its growth plan. Another is getting the Rabaska project back on the rails. The LNG terminal would bring liquefied gas by tanker to the Quebec market from suppliers in Russia or Algeria.

Gaz Metro and its partners signed preliminary agreements last spring with Russian gas giant Gazprom, the largest producer in the world. But the project has since been deferred amid the economic turmoil that has hit Russia.

Brochu yesterday blamed "the uncertainty that has pervaded financial markets." The volatile price of energy and lack of ready financing are also at issue.

In an interview, she denied politics was a factor. There were reports a few months ago that Russian interest had cooled in the Quebec project, after Canada expressed stern disapproval of Russia's invasion of Georgia last year.

"I can tell you that from our perspective, there never was a political issue," Brochu said. "Because of the uncertainty in financial markets, the discussions we had with Gazprom began to slow.

"Right now there isn't an energy project of this kind in the world that isn't affected" she

said.

"What is the exchange rate going to be? What is the price of oil going to be?"

Getting some clarity on Rabaska will have to wait "until the dust settles."

But she emphasized that it will still be needed, even if the Quebec gas deposits in the St. Lawrence lowlands are proven to be commercially viable.

"The need for natural gas in the northeast is going to be extremely large. If you look at Ontario alone, the need to replace coal-fired generating plants is enormous, and oil will not be an option."

Industrial energy users in Quebec are also switching from dirty heavy oil to cleaner burning gas, she said. And the residential market continues to grow as consumers substitute gas for electricity in newly built homes.

The final piece in the utility's strategy is to invest in wind power. Last spring, as part of a consortium, it was awarded a tender for wind turbine construction by Hydro-Québec.

Gaz Metro is a partner with Boralex in the plan to develop 272 megawatts of wind power on the Seminaire de Beaupré property. Its share of the necessary investment will be about \$400 million, Brochu said, most of which will be spent after 2012. The wind farm is expected to be operating by 2014.

Asked whether this is a business she would like to develop further, Brochu was cautious.

The Beaupré site is ideal because of the prevailing winds that blow there and because it's far from any population centres and "public acceptance is not a problem."

Other potential wind sites may not be as attractive.

Making these and other capital investments will require the ability to raise money in what has been difficult financial markets.

Brochu said getting additional equity investments will be important and the utility wants Quebec's Régie de l'énergie to authorize higher rates of return.

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