

**Imperial Oil**

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National Energy Board
 444 Seventh Avenue S.W.
 Calgary, Alberta
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Via Electronic Filing and Courier

Attention: Ms. Anne-Marie Erickson
Acting Secretary

Dear Ms. Erickson:

Re: Mackenzie Gas Project – Hearing Order GH-1-2004
NEB Ruling No. 26 and Procedural Update No. 16

Files: PA-IOR 2004-001
FacPipe IRL MGS-4
FieldOp IRL Taglu-07
FieldOp CPN Parsons-07
FieldOp SCL Niglintgak-07

In Ruling No. 26, dated February 22, 2010, the National Energy Board (the Board) directed Imperial Oil Resources Ventures Limited (IORVL) to file updated evidence on markets and economic feasibility, as well as an updated project schedule.

Economic Feasibility

As stated by the Board in its letter dated December 23, 2004 (Exhibit NEB-013):

“Economic feasibility is one of the enumerated factors in section 52 of the National Energy Board Act that the NEB Panel may have regard to, when considering whether a pipeline is in the public convenience and necessity. The NEB Panel's assessment of economic feasibility for new natural gas pipeline facilities will be based on determining the likelihood of the facilities being used at a reasonable level over the economic life of the project and the likelihood of demand charges being paid. This assessment includes an evaluation of:

- *the availability of long-term gas supply;*
- *the long-term outlook for gas markets;*
- *the contractual commitments underpinning the proposal; and*
- *project financing.”*

IORVL has no updated evidence to file for the Mackenzie Valley pipeline regarding long-term natural gas supply, contractual commitments, and project financing. With regard to natural gas markets,

IORVL is filing the attached report entitled *An Updated Natural Gas Market Demand and Supply Analysis for Canada and the U.S. Lower 48 States*, prepared by Angevine Economic Consulting Ltd. for the proponents of the Mackenzie Gas Project.

Project Schedule Update

In March 2007, Imperial provided the National Energy Board with a summary schedule for the Mackenzie Gas Project, indicating that 2014 was the earliest possible start-up. At the October 2007 Board hearings, Imperial advised that (see Transcript, Volume 48, paragraphs 11812-11813):

“ . . . on a go-forward basis, . . . we would be focusing our efforts on regulatory-related activities, we would continue work in terms of negotiations of remaining Benefits and Access Agreements, and that we would focus on discussions related to[a] fiscal framework for this project.”

“[We are completing technical and other] work that was underway at that time, . . . , but the commencement of other activities is a waiting progress (sic) in [the] areas of regulatory progress, fiscal discussions and also negotiations of remaining agreements.”¹

Regarding progress on regulatory-related activities, the Joint Review Panel concluded its hearings in late 2007 and issued its report on December 30, 2009. An improved understanding has been obtained of the regulatory review and approval process associated with permits required for construction and operations activities.

Benefits and access agreements have been negotiated, ratified and executed with Aboriginal groups in all regions, except the Dehcho, where further negotiations are planned.

Confidential discussions have been held between the federal government and the project proponents on the subject of fiscal terms for the project. However, more progress is needed to allow for a re-staffing of the project team and for resuming engineering, permitting and fieldwork.

In response to the Board's request, an updated summary schedule (see Figure 1) has been developed for the five project components. The schedule is based on the assumptions that, by September 2010:

- the Board's decision on the principal project approvals is received
- sufficient progress is made on fiscal terms

These requirements will allow for a decision to be made in September 2010 to re-staff the project team and re-start the activities required to enable the proponents to decide whether or not to proceed with the proposed project. These activities include:

- securing permits and executing field programs required to select the specific pipeline right-of-way and to develop the Plans, Profiles and Books of Reference in support of a detailed route approval
- securing permits and collecting geotechnical field data, primarily in the Dehcho Region, to determine the locations of stream crossings and granular material
- completing and submitting permit applications, and associated environmental management plans, for thousands of project construction and operations activities

- conducting regulatory reviews and receiving approvals of permit applications and environmental management plans
- progressing additional, more detailed, engineering and construction planning
- developing a detailed estimate of the cost of constructing the project facilities and associated infrastructure

The project proponents believe that, by late 2013, they could be in a position to decide whether or not to proceed with the Mackenzie Gas Project. The resultant earliest possible start-up of the project would be 2018. This revised start-up timing reflects regulatory delays, lack of a fiscal agreement, project re-staffing requirements and seasonal constraints. Timely actions by all parties, including the proponents, governments and regulators, will be essential to achieve this schedule.

In Procedural Update No. 16, the Board requested IORVL to present its "*Economic Feasibility Panel*" to adopt the new evidence and be available for cross-examination. IORVL advises the Board that it will be presenting two witnesses to speak to the new evidence:

- Ms. Heather Marreck, Commercial Manager, Mackenzie Gas Project
- Mr. Gerry Angevine, President, Angevine Economic Consulting Ltd.

An updated curriculum vitae for Mr. Angevine is attached.

Yours truly,

(original signed by)

Rick D. Pawluk
Manager, Regulatory Affairs

RDP/dmg

Encl.

cc: Parties to GH-1-2004

