

Northern Exposure, part 1: Kitimat: Business opportunity and optimism touch down at the airport, as airline numbers head skyward with infrastructure influx

Airline numbers head skyward with infrastructure influx

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 [Economy \(/sections/economy/\)](/sections/economy/)

By Sean Kolenko

Navigating the arrivals area at the Northwest Regional Airport in Terrace, British Columbia, is easy: baggage claim to the right, the exit just a few paces past that. If you're hungry, the lone lunch counter boasts an impressive menu of burgers, sandwiches and beer.

On this hot, early-September afternoon, a single plane's worth of travellers await their bags. A collection of friends, family and company drivers mill about, waiting to drive the recently arrived into town.

Or further.

The Northwest Regional Airport is the beginning of the line for many arriving in northwest B.C. from across Canada to work on the dozens of large-scale industrial projects in Terrace, Kitimat and Prince Rupert. The economic boom looming over the region needs bodies. Those bodies pass through here.

"We've never seen numbers like this before," said Carman Hendry, airport manager.

"This year, our growth really started to show its face with the workers coming into town."

In 2010, 106,000 passengers passed through the airport. In 2012, that number jumped to 139,000. This year, 165,000 passengers are expected, Hendry said. That's a 31% jump in three years.

To handle the growth in passengers, Central Mountain Air and Hawkair partnered in June to offer a new daily route from Terrace to Prince George to Calgary. Hawkair's service has gone to three flights daily; Air Canada's (TSX:AC.A) has increased to five. It's the first time either has

done that, Hendry said.

In November, WestJet Encore, a regional-focused WestJet (TSX:WJA) subsidiary, will begin offering two flights a day to Vancouver. All told, 11 flights each day will leave the airport beginning November 25.

As a 14-year employee of the airport, Hendry is grateful for the business. More passengers, after all, means more revenue. And more revenue allows for expansions. The airport has added 175 parking stalls to its long-term lot – nearly doubling its capacity – and is embarking on a 20-year master plan that will include designs for even more parking and an expanded arrivals area.

But as a longtime Terrace resident, Hendry sees the influx of passengers as more than just dollars and cents. It's personal. It's hope.

"People are living here, and they are flying," said Hendry, his voice stressing the last three words.

"This is good for the future. Hopefully, my daughter doesn't have to leave here for work. She may leave for school, but when she comes back, profitable employment will be here."

From mayor of doom to mayor of boom

It's a scenic 45-minute drive from the airport into the District of Kitimat.

If ever there was a study in contrasts, Kitimat is it. Surrounded by mountains, trees and water, Kitimat hardly cuts a picture of heavy industry. But it's all the town has ever known.

Prior to 1950, Kitimat was a small, sparsely inhabited First Nations fishing village. A few farmers lived in the area, but that was it.

Then, Alcan Aluminum moved in and built the smelter. And people followed the work. So big was Alcan's influence on Kitimat that the company even helped design the town. Old planning documents at district hall display the Alcan logo.

The District of Kitimat was born.

That industrial history has built an acceptance of industry in town. Residents are used to – and want – those jobs. And for a while, they got them. Lumber mills opened in town, so did methanol plants.

But with that dependence comes risk. When plants close, the town hurts. Family members wind up out of work. Neighbours lose jobs.

That too is a story Kitimat knows well.

The year was 2008. Joanne Monaghan was in her first term as district mayor after serving nearly three decades as a municipal councillor. Kitimat was still reeling in the wake of global methanol producer Methanex (TSX:MX) closing its plant in late 2005 after more than 25 years in town. The closure eliminated more than 100 local jobs.

At the time, Kitimat's population had dropped to about 9,000 residents, 2,000 fewer than Kitimat had in the early 2000s.

But the worst was still to come. In 2011, wood products company West Fraser Timber (TSX:WFT) closed its Eurocan mill, taking with it 535 jobs. The Eurocan mill was Kitimat's second largest employer, next to the smelter, now run by Rio Tinto (NYSE:RIO) Alcan.

Monaghan, at the time of the Eurocan's closure, predicted more than 2,000 jobs in Kitimat could be affected. Unemployment in town hit 12.5%. Vacancy rates topped 44% as even more out-of-work residents moved away.

"It was a real bust time. I was the mayor of doom," said Monaghan, now in her second term as mayor.

"So, I decided we should do something that was a little off the wall."

Monaghan organized two prayer sessions with council members and local clergy.

They prayed for stable work. They prayed for families to come back. They prayed for the "re-establishment of Kitimat," she said.

And just like that, her phone started ringing. Energy companies from around the world – primarily from China, Japan and Korea, but some from Europe as well – came through the doors of district hall. They all wanted to talk about multibillion-dollar liquefied natural gas export facilities.

And then, last Christmas, the town welcomed a long-awaited guest: Tim Hortons.

Re-establishment, indeed.

"Now I'm the mayor of boom," she said, smiling.

No room at the inn

Holding up the construction of LNG facilities is the search for long-term export contracts. Typically, liquefied natural gas export contracts are 25 or 30 years so that proponents have time to recoup their massive capital costs.

The sticking point in securing those long-term deals is the price of natural gas. Asian markets such as Japan pay four or five times what North American markets pay for the product. Companies hoping to export LNG from B.C. want to take advantage of that differential. Those interested in importing LNG, however, want a price somewhere in the middle.

And while that standoff has kept an avalanche of shovels out of the ground, it hasn't stopped Kitimat's real-estate market from booming in anticipation.

Shannon Dos Santos, a realtor with Re/Max Kitimat Realty, was the top Re/Max salesperson by transaction in B.C. in 2012 with 172 sales. This year is shaping up to be much the same. Dos Santos' mother, Melody O'Brien, has recently come out of retirement to help at the office.

"We're that busy. Activity here is 10-fold and inventory is low," said Dos Santos.

The vacancy rate in Kitimat has dropped to 0.4%. The most popular housing stock is the 1950s-era, 1,000-square-foot bungalow, priced at about \$200,000. Anything in that range sells the day it's listed, said Dos Santos.

She added that commercial investors – primarily from Calgary and Asia – buying apartment blocks and hotels is another popular trend. The City Centre Motel, a 48-room hotel downtown, recently sold for \$1.75 million. The North Star Inn, a 24-unit motel east of the city centre, sold for \$1.96 million to a construction company. But such change brings growing pains. Kitimat's rental stock, for instance, is more expensive than it used to be. Renovated units that once rented for \$400 or \$500 per month are now renting for \$1,100 or \$1,200.

And some long-time residents used to seeing the same faces day in and day out in the community, are having trouble adapting to the changing landscape. Some no longer know their neighbours – a shock in small-town life.

But those are expected hiccups and you can't let that stop you, said Mayor Monaghan.

"I don't intend to have this community like it was five years ago," she said.

"I want vibrant. When I see semis coming into town I get excited. Otherwise, what are we doing? I want things to change. This is for our children and our grandchildren so they can stay here."

'The boots on the ground'

But hotels and newly renovated apartment blocks won't handle all of the workers moving to Kitimat. Camps will be needed.

Thus far, Kitimat LNG is the only project to designate a specific location for a camp, on the Eurocan site it bought from West Fraser.

In its project description, Shell Canada has said it hopes to use Rio Tinto Alcan's camp, currently being used to house those working on the smelter modernization project. Rio Tinto Alcan's camp, however, has approximately 1,800 beds; Shell needs 5,400. If Shell's project goes ahead, the company will have to add significant space to the camp.

The need for camp space is so great that PTI Group, an Edmonton-based company that specializes in building work camps, has bought a plot of land close to downtown where it plans to build a camp of 2,154 beds. The company doesn't yet have a contract with anyone to fill the beds; it's building it solely to handle an expected overflow of workers.

What that commitment tells Rose Klukas, Kitimat's economic development officer, is that these proposed projects are "solid."

"We're seeing people coming here for projects that don't yet exist," said Klukas. "There are boots on the ground."

Northwest Regional Airport passenger growth by the numbers

June 2013: 23% increase in passengers over June 2012

July 2013: 31% increase in passengers over July 2012

August 2013: 31% increase in passengers over August 2012. (August totals reached 18,000 passengers, a first for the airport)

A laundry list of projects:

Ground zero for major industrial developments in Kitimat is the Douglas Channel. Projects in the area:

- **Kitimat LNG:** a \$4.5 billion liquefied natural gas export facility, co-owned by Apache Corp. (NYSE:APA) and Chevron Canada (NYSE:CVX). Kitimat LNG has received an export licence to export up to 10 million tonnes of LNG for 20 years.
- **Pacific Trails Pipeline:** a 463-kilometre pipeline running from Summit Lake, B.C., to Kitimat. The Pacific Trails Pipeline is a \$1.3 billion project, built to supply the Kitimat LNG facility. Once built, the pipeline and the export facility will be operated by Chevron. Apache will oversee the upstream operations.
- **Northern Gateway:** Enbridge's (TSX:ENB) controversial \$6 billion pipeline ends at the Douglas Channel, on a plot of land just north of the Kitimat LNG site. If built, the Northern Gateway project will consist of two 1,177-kilometre pipelines running from Edmonton to Kitimat.
- **BC LNG (Douglas Channel Energy Partnership):** a small, barge-based LNG facility co-owned by the Haisla First Nation, London-based natural gas shipping company Golar LNG (NASDAQ:GLNG), American energy magnates the Tatham family and an "unnamed Asian company." The National Energy Board has granted B.C. LNG an export licence for 1.8 million tonnes of LNG per year, for 20 years. Because BC LNG is considered a small facility, it does not require an environmental assessment. The project will also not require new pipeline construction to operate; it will use the existing Pacific Northern Gas pipeline. BC LNG is expected to be the first project in Kitimat, and potentially the province, to start exporting LNG.
- **Rio Tinto Alcan modernization project:** Rio Tinto Alcan's aluminum smelter, Kitimat's original industrial project, is getting a US\$3.3 billion makeover. The upgrade will increase smelter production capacity by 48% to 420,000 tonnes of aluminum per year. The modernization project, which is expected to be completed in 2014, is the only job on the Douglas Channel officially under construction now.
- **LNG Canada:** Formerly announced in May 2012, LNG Canada is a \$12 billion joint-venture

between Shell Canada (NYSE:RDSA), Koreas Gas Corp., Mitsubishi Corp. (TOKYO SE:8058) and PetroChina Company Ltd. (NYSE:PTR). The National Energy Board has granted LNG Canada an export licence to export 24 million tonnes of LNG per year for 25 years.

- Coastal GasLink Pipeline: a \$4 billion, 700-kilometre pipeline to run from Dawson Creek to the LNG Canada facility. TransCanada (TSX:TRP) will build the pipeline.
- Kitimat Clean: newspaper publisher David Black's proposed \$25 billion oil refinery (that price tag includes all requisite pipelines and tankers) to be built on an old industrial site midway between Kitimat and Terrace. If built, the refinery is expected to process up to 550,000 barrels of bitumen per day from the Alberta oilsands.

Jobs, jobs, jobs

Massive industrial projects need workers, both during the intensive construction periods and to maintain operations once completed. If each industrial project proposed for Kitimat were built, the town's population would more than double during construction.

Employment stats

Kitimat LNG: 2,800 construction jobs. Currently about 150 people are at work in town on the project. In 2011, Kitimat LNG bought the old Eurocan site from West Fraser, on which it plans to build a camp for its workers. The rest of the site will be used for lay-down and storage areas for equipment.

Northern Gateway: 3,000 jobs during its peak construction period and 165 full-time positions during operation.

Rio Tinto Alcan: 2,500 jobs during construction and 1,000 full-time positions during operation. The original smelter employs 1,300 people full-time.

LNG Canada: 5,400 jobs during construction and between 200 and 300 full-time jobs during operation.

BC LNG: 750 jobs during construction, 25 full-time positions during operation.

Kitimat Clean: 6,000 construction jobs and 3,000 positions during operation.

'I wanted air, water, trees'

On October 27, 2007, Susan Kwasnica packed her car and left. There was nothing left in Prince Albert, Saskatchewan.

With her divorce finalized and her sons grown and moved away, Kwasnica wanted out. She had some family in Kitimat and living in the mountains felt right.

She went west.

"I wanted air, water, trees," she said, folding her arms, the sleeves of her black hoodie covering her hands.

"I'm a little tree hugger. When I pass a tree outside, I still stare at it. We just had little pine trees back home."

Once Kwasnica landed in Kitimat, she quickly found work cleaning houses. She rented a three-bedroom place – complete with a full garage and deck, she says – for \$500.

Things were good.

But a herniated disk in her back forced her to quit her cleaning job. She couldn't take the bending anymore. In between jobs, Kwasnica went on welfare to pay the bills. Eventually, she landed a front-desk job at the Chalet Motel, working the night shift.

The hotel hosts a constant stream of construction workers. Kwasnica says it's full each night. Companies have booked rooms for two years solid – at \$90 a night – to ensure their workers have a place to stay.

The Chalet Motel is a microcosm of Kitimat. The hotel is full and so is the rest of the town. That demand for accommodation has meant some of Kitimat's cheaper rental stock – the three-storey walkups like those in Vancouver's Kitsilano or South Granville neighbourhoods – is being renovated in anticipation of more workers.

That worries Kwasnica.

"You could have your pick of what you wanted to live in when I came here," she said.

"Up the hill, down the hill – whatever. But it's changing. The rent increases worry me. People still need a place to live.

"But downtown is still a happy place. I still see the same happy faces."