

Mr. Lagadin's Opus: Centennial Leadership Award Winner Orchestrates A Better Way to Reach A Bigger Natural Gas Market

BY BILL CORBETT

In 1994 John Lagadin, P.Eng., picked up his lance and eyed a windmill: the conventional way of piping natural gas to buyers. Mr. Lagadin was a natural gas marketer, and a former utility executive and consulting engineer. With his experience in assembling smaller diameter pipeline projects, he set out to build something audacious and unconventional, the Alliance Pipeline.

This is a man not content with one business interest. He and his associates began crunching numbers on an alternative gas transmission line from northeast B.C. to Chicago. Today, this paper exercise has been transformed into a \$5.5-billion, 1,080-kilometre operating pipeline, and Mr. Lagadin is being hailed as Alliance's founding father.

"I enjoy the pioneer stage of doing things," says the 62-year-old Calgary and the recipient of APEGGA's Centennial Leadership Award. "I find it boring to do the same things over and over again. I've always had the energy and vision to do new things. I guess my career has been punctuated by intellectual and business curiosity."

Six years ago, Mr. Lagadin was majority owner of Direct Energy Marketing, the largest independent gas marketer in Canada, moving 1.8 billion cubic feet of gas per day. What piqued his curiosity, and that of associates Glen Perry and Ian Morris, was how Canadian producers could get more value for their gas at a time of low wellhead prices, excess production and insufficient export pipeline capacity.

Large Diameter a No-Go

The first solution – to build a large-diameter high pressure export line in competition with the major pipeline transmission companies – was abandoned. It would not be able to generate the gas volumes needed to be price competitive. "So we said, let's see if we can move the wellhead to Chicago by keeping the natural gas liquids in the pipeline," he says. "The idea was to pack the molecules closer together and deliver more BTUs at less cost to the marketplace."

Mixing natural gas and associated liquids in one export pipeline challenged the conventional wisdom of stripping liquids at the wellhead and shipping them in a separate line. But the windmill was worth tilting; this new type of exporting would give producers – and ultimately the royalty owners, the people of Alberta, through



John Lagadin, P.Eng.

their provincial government – access to more buyers. At the same time they'd receive long-term, North American clearing prices for their gas rather than the discounted prices that came from the lack of long-term transportation to U.S. and Eastern Canadian markets.

This would also expose the basic petrochemical building block, ethane, to upward price forces. And this would, in essence, bring to an end the selling of the stripped ethane to Alberta petrochemical companies at prices below those of the U.S. market.

To be technically and economically viable, however, such a mixed-gas pipeline needed to be smaller in diameter and able to operate at high pressures. This meant devising a technology to manage such things as gas composition, temperatures, pressures and dew point ranges. If it worked, the technology would allow the pipeline to operate more efficiently than standard transmission lines by using less compression, horsepower and fuel.

The Paradigm Must Shift

"What most people don't understand is if it wasn't for this technology we came up with, the Alliance Pipeline wouldn't be there," Mr. Lagadin says. "This is a major paradigm shift, both commercially and technologically. Once it became apparent this mixed gas concept would work and bring more value to producers and royalty owners, I realized this pipeline was going to be built with or without me. There was too much value on the table for society to ignore. It then became an issue of marketing it."

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He and his team convinced some 20 companies of the economics and benefits, getting them interested on a conditional basis. "It was a kind of dating game, the soft-sell approach," says Mr. Lagadin. Confidentiality agreements demonstrated their expression of interest. Producers were, after all, dissatisfied with the prices they were receiving for their product. From there, the producers agreed to fund a \$2.5-million detailed feasibility study. The study confirmed the value of a high-pressure, mixed gas pipeline.

Through a collective approach, to supply the 800 million cubic feet of daily gas needed to launch the project, the pipeline could go ahead. So the decision was made to build and operate the pipeline.

Newspaper Sales Started it All

The organizational phase was ending. "As it got its own life, I backed away," said Mr. Lagadin.

He gradually slipped into the background, staying on the Alliance board of directors until this past spring.

In a sense, the creation of the pipeline goes back many, many springs. Mr. Lagadin's entrepreneurial traits were evident at age six, when he began selling newspapers on a street corner in Thunder Bay, Ont. "When you buy, say, 40 newspapers for a nickel apiece and try to sell them for 10 cents, you take a bit of a risk. Those kind of things shape your thinking," says Mr. Lagadin.

After earning a mining technology diploma at Lakehead University, he graduated from Michigan Technological University in 1962 with a B.Sc. in geological engineering. He joined Twin City Gas in Thunder Bay as a regional engineer, later transferring to parent company Northern and Central Gas in North Bay, where he advanced to chief engineer. In 1978, he moved to Sherwood Park as vice-president and general manager of ICG Engineering, a subsidiary of ICG Utilities, and over six years built a staff of more than 100 and a business focused on developing natural gas distribution systems in unserved parts of Canada, primarily in Quebec.

"ICG Utilities and I parted company in 1984, as I didn't fit the utilities culture any more," Mr. Lagadin recalls. "I wanted to expand and do interesting things. I find it boring to do the same things over and over again."

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After a year of independent consulting, he and a consortium of 11 producers founded Direct Energy Marketing in anticipation of the deregulation of the Canadian natural gas market. As a pioneer independent marketer, Direct Energy became the largest industrial natural gas supplier in eastern Canada and later the largest independent marketer in Canada. Not satisfied with that success, Mr. Lagadin formed three

spin-off businesses, including QuickTrade, North America's first commodity-styled electronic exchange for natural gas.

"I was looking for a bit of diversification into a related business," says Mr. Lagadin, who moved to Calgary in 1990. "I could see that there would be e-commerce in this business and figured we could either be subscribers or we could invent it. So we did the latter."

Success is Like Conducting

A key to success in all these risk-taking ventures, he says, has been surrounding himself with the right mix of experienced, mostly Type A people, and encouraging them to work towards a common goal. He likens this process to a conductor assembling people with different talents, personalities and backgrounds, and placing them as a cohesive orchestra.

Now that he's withdrawn from an active role in business – he prefers the word "independent" to "retired" – he has more freedom to ski, golf, visit the family cottage in southeast B.C. and spend time with wife Connie and their four children and 10 grandchildren. But he also spends considerable time monitoring his investments, sitting on several boards of directors and pursuing the further application of the two patents he holds on the Alliance Pipeline technology. In particular, he'd like to see this high-pressure, mixed-gas concept used to ship northern Canadian and U.S. gas to distant southern markets.

"Nothing is impossible if the value is there. Then it's a matter of selling it," he says. "When I fix to get something done, I usually put in the energy to get it done." ■

