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Restricting crude oil supply to Canadian and US markets

Mr. Keough referred to Mr. Allan's written evidence [Exhibit D4-2-03], specifically this text: "The proponent maintains that the purpose of Northern Gateway is to restrict crude oil supply to Canadian and US markets, thus raising the price of Canadian crude oil." He asked Ms. Allan to point him to a reference on the record where the proponent states that to be the purpose of the project. After a number of iterations of the question, she concedes that the proponent did not say that. 28191

He asked Ms. Allan if she is aware of any circumstance where the crude oil supply to Canadian refiners has been deliberately restricted. She replied that she did not explore that question and can't answer it without more thought. 28217

Referring to the written evidence again, he quoted, "…there is evidence that the Canadian economy is showing symptoms of the Dutch disease." He asked whether she is saying that is happening currently. She stated that the economy is showing some signs of the Dutch disease. 28253

Western Canadian crude price discount from WTI and Brent

Asked about understanding of the current pricing of Canadian crude oil relative to the international market pricing, Ms. Allan explains that Western Canadian crude has historically traded at a discount from West Texas Intermediate (WTI), but that WTI traded at a premium to Brent. In 2009/2010, WTI shifted to a discount from Brent, perhaps because Saudi Aramco elected to no longer use WTI in it's transactions for sending oil to the Gulf of Mexico. Because Western Canadian crude uses WTI as its benchmark, Canadian crude oil started to be priced at a deeper discount to Brent. "Hence, when we hear about the $20 to $30 dollar deep discount, what most people are talking about, it appears to me, is the price of our crude oil compared to Brent and this unusual de-coupling is of a great concern to the oil sector." 28263

Examination by Richard Neufeld for NGP

Trans Mountain carries refined product and feedstock prices

Mr. Neufeld established with Mr. McGowan that the Trans Mountain pipeline carries some products refined in Edmonton, to Vancouver.

He then asked for confirmation that there is no restriction on the availability of bitumen in Alberta, no restriction that would inhibit construction of a new upgrader. Mr. McGowan said that "construction and operation costs have essentially priced Alberta out of the market in terms of upgrading and refining, " and that NGP would exacerbate that problem. 28346

Later in the transcript Mr McGowan referred to a Raymond James report which found that "basically every project that has been developed since 2008 has been at least 100 percent over budget and, in some cases, as much as 260 percent over budget. They asked the question why. Raymond James' conclusion was that there were simply too many projects going on at the same time."28422

Mr. Neufeld describes the SaskOil project to bring natural gas from BC and convert it to liquids. It relies, he said, on oil prices in $100/b range and gas prices in the $6/mcf range. With respect to the various projects that are proposed to bring British Columbia shale gas to the West Coast for liquefaction, he asked Mr. McGowan, "Would it be your position that those projects should not proceed if there is a prospect that this gas to liquids project in Edmonton might be made more uneconomic as a result of the construction of pipelines to carry natural gas to the West Coast?" Mr. McGowan replied, "I think it would be incumbent on policy makers in British Columbia and bodies like the National Energy Board to consider the trade-offs, yes." 28371

Mr. Neufeld commented, "All right. Maybe some more business for all of us."

Mr. McGowan's tendency to provide more in his answers than he was asked in the questions, results in the Chairperson interrupting him, and stating, "Ms. Chahley, do you need a break to be able to have your witnesses reformat, reframe their mindsets so that they'll be able to proceed in a useful way in answering the questions of this party?" 28387

Dutch disease

Mr. Neufeld quotes from a speech by Mark Carney, the Governor of the Bank of Canada, on September 7, entitled "Dutch Disease." Mr. Carney said, "Numerous factors influence our currency and, most fundamentally, higher commodity prices are unambiguously good for Canada." Mr. McGowan cited an example of a trailer manufacturer having to move to South Carolina because of uncompetitive costs in Alberta, and points to another quote in the Carney speech: "Canada-U.S. exchange rate tends to appreciate [with] global commodity prices … accounting for about one-half of the appreciation of our currency over the past decade." 28452

“The decline of manufacturing has something to do with low cost competition from places like China, it has something to do with declining markets in places like the United States. But I don’t think anyone who’s actually taking an objective look at this could say that high commodity prices have no connection with the high dollar.”

Ms. Allan’s credentials

Mr. Neufeld turned to Ms. Allan, asking an extensive set of questions about her professional background. He asked if she agrees that she is quite opinionated when it comes to the NGP project. She did not agree.

“Given the very limited number of corrections that you’ve made to your evidence”, is it fair to say that your opinions and conclusions have not changed regarding NGP, asked Mr. Neufeld. Ms. Allan tried to clarify the question: “My expert opinions have not changed from their testimony?” Mr. Neufeld: “I didn’t say you had an expert opinion, I said you had opinions.” He continued with questions about Ms. Allan’s CV and publication record.

Scope of the risk

Ms. Allan stated that the expansion potential of NGP should be part of the consideration of this review because an expansion project will not receive the same scale of review as is taking place now.
Ms. Allan stated, “The design of the project is such that the capacity on the oil pipeline can go from an average of 525,000 barrels a day to 850,000 barrels a day. And the condensate pipeline can go from 193,000 barrels a day to 274,000 barrels a day, with only the addition of pumping stations and pumps.” :”If you’re going to expand 60 percent in pipeline and 40 percent in condensate, you actually increase tanker traffic by over 50 percent and you also increase the amount of activity in the marine terminal. Risk is not additive; it’s exponential.” 28597

Mandatory insurance coverage

Ms. Allan stated that “by requiring mandatory insurance … the public interest is better protected because the decision to purchase insurance is not then left to the Northern Gateway General Partnership. If it's left to the discretion of the general partnership, one of the concerns is that, as risk increases and insurance gets more expensive, business entities can select to have self insurance at the very time when they should be doing the opposite.” 28659

“We have a company that’s building a crude oil pipeline and operating it, a condensate import pipeline and a marine terminal for the first time. Those three things together pose a significant amount of cumulative risk. We also have an operator that has very recent experience that shows that the organization has systemic deficiencies.” 28702

Discussion with Mr. Neufeld was how this insurance might be structured and what the Panel’s role would be.

The price uplift, its effects, and whether it would actually occur

In a reply, Ms Allan stated, “What if we actually believe the Muse report and the Wright Mansell report? What if we take it at face value? They’ve told us that the price on Canadian crude oil with Northern Gateway for all Canadian crude oil produced will be two to three dollars a barrel on every barrel every year for 30 years. When Northern Gateway is built, that oil leaves the market and, hence, prices in every other market will be affected if we believe the laws of supply and demand. I was simply saying that, if you take their analysis to its conclusion, that’s what you get.”

“I also did in my analysis and in my evidence very clearly say: What if we don’t actually believe the price lift will occur, what will happen? And that’s when I evaluated the quality of the models that we were presented with and the reliability of their assumptions. That’s when I also raised the questions about this is a public interest benefit case presented to the Canadian public and it has been presented with no sensitivity analysis.” 28753

Mr. Neufeld asked, “Did Dr. Mansell or Mr. Earnest ever say that Northern Gateway would increase the price of Brent crude?” Ms. Allan replied, “Their analysis, when you take it to its logical conclusion, says that.” 28759

Condensate

Mr. Neufeld stated, “This project switches the source of input -- imports of condensate. [Dr. Mansell] did not say that it increases reliance on -- on imported condensate.” Ms. Allan: “I think that Dr. Mansell is wrong because the CAPP -- particularly the CAPP 2011 forecast, it assumes condensate supply from Southern Lights. It assumes rail supply if necessary and it assumes condensate supply for Northern Gateway or a source exactly like it.” 28784

Inflation

Mr. Neufeld stated, “You've indicated that this project will cause inflation.” Ms. Allan replied, “I've indicated that based on the Muse and the Wright Mansell analysis…that benefit … is a 2 to $3 a barrel increase on the price of crude oil every year for 30 years.” “Enbridge confirmed that the price increase would be passed on to consumers and producers of other products. The entire economy is faced with higher prices. When that price increase occurs, it's a transfer of income from Canadians and non-oil producing businesses to the oil sector.” 28805

Mr. Neufeld: “Well, you've said it happens for 30 years?” Ms. Allan: The base case versus the Northern Gateway case is fundamental to understanding the impact of this project as defined by the Proponent. Muse and Dr. Mansell each did their analysis every year. And every year they assumed no Northern Gateway and Northern Gateway. And every year they created a price -- well, sorry. Mr. Earnest's report created a price lift, which Dr. Mansell used. Every year, this price lift comes about because of no Northern Gateway and then Northern Gateway. And so the only way that it's appropriate to evaluate the overall impact on the Canadian economy from that price lift, would be to look at what would happen each and every year with Northern Gateway and without Northern Gateway. And each and every year, it's a two-and-a-half to three-and-a-half percent -- 2.3 to three and a half percent real price increase. And so the conclusion from looking at that each and every year is that each and every year the economy would suffer, based on the Proponent's case, an inflationary impact." 28816

Ms. Allan expanded on her understanding of Muse Stancil and Wright Mandell. "When you have an economic case that assumes no increase in supply, with or without a project, there is no economic growth by definition. So the only difference with respect to the price impact -- I'm not talking about the construction or the operation, although that's only 10 percent of the case that Dr. Mansell presents -- what I'm talking about is the price lift. There is no economic growth. There is no new supply. It's just a redirection. Hence, the only thing that happens is the price goes up." 28863

Examination by Carol Hales for NEB 28893

Ms. Hales reviewed with the NGP witness panel, the various methods NGP had proposed to cover the costs of a major spill. She proposed to run through a similar review with Ms. Allan. Ms. Allan said that if the costs-above-insurance were modest, the methods proposed by NGP were probably adequate. 28895

Covering costs of a major spill

"But let's look at a situation where the insurance is insufficient, the cash flow of operations are insufficient, and not only are not -- you know -- dividends being paid out but the tolls would have to go up and that that for business reasons or regulatory reasons is not desirable; the kind of event that could affect a single asset and in fact an export pipeline and an import condensation pipeline -- condensate pipeline and a marine terminal is one asset." 28902

"If those assets are compromised such that it would take time and/or money to return them to operating you don't have a source of cash flow. So it becomes more difficult to secure financing when your assets are compromised. And so that's the concern with the option of debt financing or even -- I know that there was a suggestion of going to capital markets. Well, when you have 10 investors you're not a publicly traded company so you can't go to capital markets. It's -- the structure doesn't lend itself to the equity markets in that way."

Ms. Hales asked, "Are there any financial options that you'd like to offer that could be put in place prior to a spill?" Ms. Allan replied, mandatory third-party insurance. 28905

Examination by Kenneth Bateman of the Joint Review Panel 28920

Mr. Bateman asked, "If I've heard you correctly today your view is that insurance protection in the range of a billion dollars would be an appropriate threshold." Ms. Allan replied, "To start from the premise of a minimum billion dollars mandatory required pending there is still -- as I understand it -- quite a bit of work to be done on what the risk of this project really is. That was a place to start knowing what we know at this point." Mr. Bateman: "So it would be a floor?" Ms. Allan: "Yes"

Mr. Bateman asked about NGP's assertion that the additional $500 million invested in thicker pipe, etc., is a better way to address risk than insurance. Ms. Allan said that we also need to know more about risks and spills involving dilbit and synbit and the forthcoming US EPA report on the Michigan (Line 6B) spill may provide us a lot more information about this. The third area is the human factor or the organizational systemic risk of Enbridge as a company and how the National Transportation Board has found the culture of the corporation to have posed a significant risk and one of the major reasons why that spill ended up being so significant. When you take those three things into consideration that lends itself to a much higher limit than $250 million." She added that she has seen no information that suggests it is not possible for the limited partners and/or the general partners to walk away from this project. 28924

Asked about the value of a parental guarantee, Ms. Allan says "Enbridge won't entertain that," and Mr. Bateman says "It's not the Applicant who makes these decisions."

Examination by Sheila Leggett, Chairperson of the Joint Review Panel
28965

The Chairperson asked whether a third-party insurance policy to the tune -- let's deal with the one billion that you've recommended as the floor so far -- would be available in Canada. Ms. Allan said she did not know but "if the demand is there, usually the supply will show up."

Introduction of Cenovus et al Panel by Don Davies 28979
(Cenovus, Nexen, Suncor, Total, and MEG Energy)

Mr. Davies introduced a panel of representatives of five companies, Cenovus, Nexen, Suncor, Total, and MEG Energy. Mr. Davies is counsel for four of the companies, Messrs. Keough and McGillivray are counsel for MEG Energy. The panel members are:

Richard Dembicki, Director, Crude Oil Marketing, Cenovus Energy Inc., [D29-8-2 Direct Evidence]

Deanna Zumwalt, Vice President, North American Crude Oil Marketing, Nexen Inc., [D29-8-3 Direct Evidence]

John Van Heyst, Manager, Market Logistics, Suncor Energy Marketing Inc., [D29-8-4 Direct Evidence]

Gary Houston, Vice-President of Midstream, Total E&P Canada Ltd., [D29-8-5 Direct Evidence]

Donald Moe, Vice-President, Supply and Marketing, MEG Energy Corp., [D133-6-1 CV] [D133-2-1 Direct Evidence]

The witnesses were sworn in, then CV's and direct evidence exhibits were confirmed.

Examination by Leanne Chahley for the Alberta Federation of Labour, 29059

Ms. Chahley first wanted to confirm who the parties are that are shippers on NGP. For details, please read the transcript beginning at paragraph 29062

She began with Mr. Moe and Meg Energy Corp. and established these facts: it has no related companies in the oil sands or Canada, the proportion of shares held by non-Canadians is not known, CNOOC owns 14.8% of MEG in common shares, CNOOC has state and private ownership, MEG owns no refineries or upgraders in the US or Canada, MEG also owns 50% of the Access Pipeline from Christina Lake to Stonefell, near Bruderheim, currently under construction and consisting of a diluent pipeline and a dilbit pipeline.

She ran through the other witnesses with similar questions. Some points of particular interest are: MEG is 50/50 partner with Sinopec in the Northern Lights Project (a group of oil sands leases); Total owns a refinery in Port Arthur LA; Suncor owns a number of upgraders and refineries in Canada, and one in the US; CNOOC (65% state-owned, 35% trading shares) has made a bid to acquire Nexen; Nexen holds 18,000 bpd on Trans Mountain (of the "Firm 50" 50,000 bpd); Cenovus holds 11,500 bpd on the Trans Mountain Firm 50.

Oil sands production capacities

Ms. Chahley also reviewed production capacities of these companies. Suncor, for example, expects to produce 700,000 bpd by 2020. This questioning begins at paragraph 29455.

Ms Chahley asked Mr. Moe: "Is it an option for your company just to slow down production a bit and pace your growth just a little bit more?" Mr. Moe replied: "I don't think our shareholders would be very happy with that. So I think no, it's not an option." 29684

Expanding US oil production

Mr Van Heyst said, "We're getting displaced out of some of those traditional markets. We have two fields, Bakken and Eagleford, that were hardly producing anything less than 100,000 barrels [three years ago]. Production from those two fields alone is in excess of a million barrels today. So we're having to compete in our traditional markets with growing U.S. production." 29704

Shipping by rail today

Ms. Chahley asks the witness panel if any of them are shipping by rail today. Cenovus, Nexen, Suncor (not oil sands) are; MEG will be shortly, Total is not. 29840

All five companies represented have signed precedent agreements for both the oil and the condensate pipelines. 29898