



**Day 1 - September 4, 2012 - Edmonton**

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**Order of Appearances**

**Northern Gateway Pipelines Inc. (NGP) - Panel 1**

- Mr. John Carruthers [[B90-17 CV](#)]
- Mr. Paul Fisher [[B90-22 CV](#)]
- Mr. Neil Earnest [[B90-20 CV](#)]
- Dr. Robert Mansell [[B91-5 CV](#)]
- Mr. Roland Priddle [[B91-12 CV](#)]
- Dr. Jack Ruitenbeek [[B91-15 CV](#)]
- Mr. Mark Anielski [[B90-7 CV](#)]

**Features for enhanced use:**

- Links to reference documents provided throughout the notes
- Frequent paragraph numbers to the relevant text or discussion in the transcript

- Examination by Mr. Roth 14432
- Examination by Ms. Chahley 14588

Note: Given that this is the first hearing in the Questioning Phase, and the first panel of witnesses, there are a number of preliminary remarks and steps which will not be repeated in subsequent days. These include remarks by Panel Chairperson Sheila Leggett, Counsel for the Proponent Richard Neufeld, Panels remarks, Panel Chair Bernie Roth, and NGP President John Carruthers.

**Chairperson Sheila Leggett’s Introductory Remarks 14343**

Any information which is to be considered by the Panel, must be on the record. The record includes the [transcripts](#) for oral evidence, and [written evidence](#).

The hearings will take place in Edmonton, Prince George, and Prince Rupert, and will proceed on an issues basis. (Appendix A) In Edmonton, the issues to be covered include economic need of the project, the potential impacts of the proposed project on commercial interests, and financial and tolling matters.

When each party's witness panel is presented, and has adopted its written evidence, they will then be available for cross-examination or questioning, generally following the Order of Appearances. Counsel for the Panel and Panel Members may also have questions.

Exhibits will be viewed electronically, displayed on the screen when they are referred to by their exhibit numbers.

Questioners should provide a list of the exhibits that they will be referring to a few hours before they begin. [Exhibit List](#) The Panel must give permission to file any other documents.

On this first day in Edmonton only, counsel for the Panel will read through the list of parties that have advised that they wish to ask questions in Edmonton. This process will be repeated in Prince George and Prince Rupert. Each will be asked if there are any changes to the information previously provided, and if there are other preliminary matters. If your name is not called and you're a registered party who wishes to ask questions of a witness panel, you must make that request as a preliminary matter.

## **Introductory Remarks by Richard Neufeld for Northern Gateway Pipelines (NGP) 14411**

Mr. Neufeld stated that Northern Gateway will be presenting eight witness panels from Edmonton through Prince George and Prince Rupert. He also named other people from his law firm, Fraser Miller Cosgrain (FMC), who will be present at other locations.

Witnesses will not be available for media interviews. “We think it's just proper and appropriate that when people are under cross-examination, they not be commenting on the proceedings in any way.”

Noting the number of intervenors who do not have legal representation, Mr. Neufeld offered access to his legal team and other lawyers in the room if the parties without representation have questions.

Regarding the multitude of information requests, FMC will maintain a directory of which information responses are going to be responded to by which panels. “One of our jobs as counsel for the Proponent will be to try to keep tabs of whether the questions are going to the right panel as will each of the panel -- or witness panel chairs -- as we go.”

“We're mindful of the Panel's request for an informal business casual dress code. Our witnesses are comprised of people from Enbridge Northern Gateway who are never without a tie and experts who would have to go out and buy one for the occasion.”. 14425

## **Introduction of NGP Panel 1 by Bernie Roth for NGP 14432 Economic need for the Project**

Mr. Roth introduced each member of NGP's first panel, then asked that they be sworn in. Following the swearing in, Mr Roth asked each witness to confirm that exhibits filed as CV's and direct evidence as well as other evidentiary exhibits, if any, were his or hers. Each panellist then reviewed any corrections that needed to be introduced into the record. Mr. Roth ended by a brief review of each witness' experience serving as a witness in NEB or other regulatory proceedings.

The witnesses, and the evidence relevant to this particular panel:

Mr. Mark Anielski [[B90-7 CV](#)]  
[[B83-6 Evaluation of Natural Capital and Ecological Goods and Services at Risk Associated with the Proposed Enbridge Northern Gateway Pipeline](#)]

Dr. Jack Ruitenbeek [[B91-15 CV](#)]  
[[B83-4 Public Interest Benefit Evaluation of the Enbridge Northern Gateway Pipeline Project Update and Reply Evidence](#), Mansell co-author]  
[B100-5 Errata, B100-6 Errata]

Mr. Neil Earnest [[B90-20 CV](#)]  
[[B1-4 Appendix A Market Prospects and Benefit Analysis for the Northern Gateway Project](#)]  
[[B83-3 Update of Market Prospects and Benefit Analysis for the Northern Gateway Project](#)]  
[B100-3 Errata, B100-4 Errata]

Dr. Robert Mansell [[B91-5 CV](#)]  
[[B1-4 Appendix B Public Interest Benefits of the Enbridge Northern Gateway Pipeline Project](#)]  
[[B83-4 Public Interest Benefit Evaluation of the Enbridge Northern Gateway Pipeline Project Update and Reply Evidence](#), Ruitenbeek co-author]

Mr. Roland Priddle [[B91-12 CV](#)]  
[[B83-5 Reply Evidence of Roland Priddle](#)]  
[B100-7 Errata, B100-8 Errata]

Mr. Paul Fisher [[B90-22 CV](#) & direct evidence re commercial arrangements]

Mr. John Carruthers [[B90-17 CV](#)], President and Project Lead for NGP

Mr. Roth then asked one of the witnesses, in this case Mr. Carruthers, President of NGP, to deliver the Opening Statement.

## **Opening Statement, John Carruthers, NGP 14543**

Mr. Carruthers declared that “The Northern Gateway Pipeline Project ... is based on a simple but powerful vision, ... to connect growing supplies of Canadian energy production to new and growing markets in Northeast Asia and elsewhere.”

He cited other notable, expensive, and controversial projects in Canada, including the Canadian Pacific Railway, the St. Lawrence Seaway and the TransCanada Pipeline. The legacy of each “laid the foundation for significant benefits for generations of Canadians. Our project is no different.”

“Starting today we will, through our witness panels, do our best to identify to the Joint Review Panel a path forward that will allow Canada to enjoy tremendous economic benefits, while at the same time squarely addressing the concerns and reservations that have been expressed during this hearing.”

“There is a path forward that will ... provide a significant improved quality of life for all Canadians, including Aboriginal Canadians, while protecting the environment. It culminates in approving the project.” 14553

Mr. Carruthers offers roles and benefits for First Nations and conservation organizations, though he excludes “those whose primary interest is to delay or impede oil sands development.”

In Edmonton NGP is presenting a panel of witnesses to speak to the economic benefits of the project, as well as tolls and tariffs.

At Prince George, three witness panels will cover design and construction of the pipeline, environmental and social economic effects, operation of the pipeline, spill preparedness and response, and effects of the accidents and malfunctions.

“We accept that we must take all practicable measures to make sure there will not be a repeat of the Marshall (Kalamazoo, Michigan) event on the Northern Gateway pipeline system.”

In Prince Rupert, NGP panels will speak to the marine aspects of the project: potential environmental and socio-economic effects of shipping operations, marine emergency preparedness and spill response, the effects of potential marine spills, marine shipping and navigation, and Aboriginal engagement and public consultation.

“Our project presents a tremendous opportunity for our country. What is required is an approval.”

### **Examination by Leanne Chahley for the Alberta Federation of Labour (AFL) 14577**

Ms. Chahley began with Table 1 in exhibit [D4-2-49](#) then asked if Northern Gateway can accept that between 89 and 95 percent of the benefit ... to Canada ... is due to the projected increase in oil prices?

**Table 1**

**Estimated Economic Benefits of the Project**

<b>Economic Impact</b>	<b>Northern Gateway Estimate</b>	<b>Due to Oil Price Increase</b>	<b>Share from Oil Price Increase</b>
GDP	\$270 billion	\$246 billion	91.00%
Additional Labour Income	\$48 billion	\$43 billion	90.00%
Person Years of Employment	558000	496687	89.00%
Government Revenue	\$81 billion	\$77 billion	95.00%

Source: Table 1-5 Volume 2 Section Enbridge Northern Gateway Application and Response to Federal Government IR No.1

Dr. Mansell agreed that this table was essentially correct about the approximate percentage of the benefit, and its attribution to an increase in oil prices that NGP enables. But, he says, the diversification value and the option value are the main drivers of the project, but that they have not been quantified.

**Market Prospects and Benefits Analysis (Muse Stancil) & Public Interest Benefits Analysis**

Ms. Chahley asked what degree of robustness or certainty in the two reports prepared by Mr. Earnest for Muse Stancil ([B1-4 Appendix A Market Prospects and Benefits Analysis](#)) and Dr. Mansell ([B1-4 App. B Public Interest Benefits](#)) should we give these reports. Mr. Earnest replied: “I am unaware of a more powerful analytical model for trying to answer the question” and then says “I don't know that you can assign a probability to ... what the future holds for us in terms of oil prices. I don't know that that question ... can be analytically quantified or answered.”

Ms. Chahley: “People want to know is this just a guess?” Mr. Earnest: “It's not a guess” “It won't just be my opinion of benefit that drives this project” but that the analyses will be “replicated by each of the committed shippers” 14639

Ms. Chahley and Mr. Earnest engage in a lengthy to-and-fro as to the reliability of his market forecasts, especially in the outer years of his 2012 update report [[B83-3](#)] which has an 18 year timeframe versus the original report [[B1-4 Appendix A](#)] which has a 10 year timeframe.

Mr. Priddle interjects that pipeline infrastructure needs to grow to accommodate the projected growth in oil sands production 14690

**Shipping away jobs**

Ms. Chahley: Where the AFL sits on this ... is that this pipeline is shipping away unprocessed resources which, if they were processed in Canada, would mean that we would have long-term community jobs. We know that pipelines would be a way to then ship those processed goods out too. 14695

Mr. Priddle comments that most liquid pipelines carry a mix of products, rather than a single product exclusively, and Mr. Earnest's update report indicates that NGP in the 2020+ timeframe will be carrying a mix of heavy oils, dilbit which is diluted bitumen, and synbit which is a heavy synthetic oil produced from bitumen in an upgrader – and hence getting some of the in-Alberta processing. 14714

### **Dilbit, synbit and other explanations**

Discussion follows about dilbit, diluents, and the NGP condensate pipeline, more to explain things for Ms. Chahley at this point than to further her line of questioning. Some of the points noted:

- the blend ratio for synbit is about 50/50 bitumen and light synthetic oil, with small seasonal variation;
- the synthetic oil will be a product of the upgraders;
- synthetic has been upgraded from approximately a nine gravity material to roughly a 30 gravity material and sulfur content and other containment is removed;<sup>1</sup>
- the two crude grades preferable in North East Asia will be Cold Lake Blend (dilbit) and 50/50 synbit.
- the condensate pool in western Canada is extracted from raw natural gas, comes from upgraders in Alberta, and is various forms of imported material;
- when the dilbit or synbit gets to its destination refinery, it is all just crude oil and is refined into whatever products are most economic to produce. One of those products may be a diluent which may get shipped back to Alberta – it depends on the economics at the time. 14747

### **Refineries build near markets**

To the question as to whether the oil pipeline might carry refined products, Dr. Mansell replied that it is possible, but not likely. Refineries tend to be built near markets, not at the production end of the chain. “One shouldn't think of Alberta realistically as being a base for large-scale refining of petrochemical projects and then shipping them.” It is not now even commercially economic to think of building more upgraders in Alberta, in the absence of government subsidies. When there is only a small price differential between heavy and light crude (bitumen and synthetic crude), there is no commercial rationale to build upgraders. 14774

Ms. Chahley asks whether “the projection is that this pipeline will raise the price of bitumen by two to \$3 on average over a course of time, thus lowering that differential?” Referring to Table A-17 in [B83-3](#), Mr. Earnest and Dr. Mansell argue that the effect of NGP will be greater on heavier grades of oil, not lighter grades, therefore not providing a financial incentive to upgrade or refine at source. 14799

The differences between the first and updated Muse Stancil reports and the degree of confidence in the longer term figures are discussed.

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<sup>1</sup> API gravity. Water=10. Bitumen, 9 gravity oil, will sink in water. 30 gravity oil (eg., diesel) will float.  
*Northern Gateway Pipelines – Joint Review Panel – Hearing Notes* Page 6  
*Presented by Northwest Institute for Bioregional Research* [www.northwestinstitute.ca](http://www.northwestinstitute.ca)

## Methodologies

Ms. Chahley's questions then turned to methodologies – specifically the methodologies applied by Dr. Mansell in the updated public interest benefits analysis ([B83-4](#)) and discussed on page 37, and Mr. Earnest in the market prospects and benefit analysis. 14874

The model used in developing the public interest benefits analysis, is produced and maintained by Statistics Canada, its Interprovincial Input Output Model, and was adjusted in places by Dr. Mansell to factor in impacts not build into the model. One of these, for example, was necessary because the intent is to manufacture the pipe in Canada.

The impact of NGP was broken up into four segments: construction, operation, GDP (where the price of oil uplift is factored in), and induced impacts (where increased revenues are spent or reinvested, increased production is considered). Ten different “runs of the model” were done for different assumptions and components. A considerable portion of the subsequent discussion explored aspect of the methodology, for which there are 17 volumes explaining its details, according to Dr. Mansell. 14934

Ms. Chahley notes that this information was not included in the report and asks, “The intervenors or the Panel would not have known any of that unless I asked you today, correct?” 15068 Dr. Mansell explains that some of the methodological questions were in an IR reply ([Exhibit B41-6](#)), specifically related to differences between the first and second public interest benefits analysis, since in the first, some portions were completed before the Muse Stancil report was available. The process was changed in the second iteration, which took these inputs from Muse Stancil. 15081

The day closes with Dr. Mansell mentioning to Ms. Chahley that this information and more was provided in a reply to AFL ([Exhibit B94-1](#)). Ms. Chahley will continue this line of discussion in the morning.