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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. Robinson (continued) 19508
- Examination by Mr. Leadem 20154

Decision of the JRP on the motion presented by Mr. Janes 19464

Yesterday, Mr. Janes used a paper entitled "An Empirical Analysis of IOPCF Oil Spill Cost Data" prepared by Kontovas and others ("Kontova et al")s paper" in questioning Dr.

Ruitenbeek on his opinion included in Northern Gateway's reply evidence. Mr. Janes asked that the article be made an exhibit. The Panel will make the entire Kontovas paper an exhibit. Only the excerpts from it that Dr. Ruitenbeek has accepted during questioning will be considered as evidence.

Examination by Barry Robinson for the Coalition (continued) 19508

Indicating that he wants understand the modelling for Western Canadian crude without NGP, Mr. Robinson notes two statements in B83-3, the Muse Stancil 2012 market analysis report2012. At present the Maya (a Mexican benchmark crude oil)-WCS differential has averaged about $31.50/bbl", and "The effect of delivering more Canadian crude to the U.S. Gulf Coast by rail is … the widening differential"

He then looks projections in the report (Table A-16) and notes that differentials are forecast to be $4.44 in 2018 rising to $10.93 in 2035. What happens between 2012 and 2018, Mr. Robinson asks?

Primarily, according to Mr. Earnest, the markets accessible to the Western Canadian crude producers are currently hugely over supply, but that is expected to be alleviated in the next few years by a number of pipeline projects to the Gulf and to the Atlantic, as well as an increase in the use of rail. 19524

The price-setting point

So the Gulf is the price-setting point? "Unequivocally it's not." Mr. Earnest explains that the price at the Gulf stays the same, but the differential widens. 19530

The price-setting "point" is a convenient concept whereas the actual price setting mechanism is at the moment probably some combination of pipeline to Cushing and truck to the Gulf .

Your model supposes that when there is still product to ship, and the pipelines are full, that rail will then pick up the excess? And that if rail cannot ramp up fast enough, or is not used at all, the only alternative is shut-in product? Mr. Eastern generally agrees, and points to Bakken as an example of how rapidly rail is able to expand capacity, leading to his opinion that shut-in crude is not likely. 19554

The analytical basis of our assessment of the economic benefits to Northern Gateway does not include a shut-in scenario. 19565

Reinvestment scenario

Mr. Robinson confirms with Dr. Mansell that the Wright Mansell public interest benefits analysis assumes that 47% of the increased revenues from the price uplift, were NGP to be built, will be reinvested, and that the reinvestment would be in conventional production in Alberta, and not oil sands. Why not the oil sands?, he asks.

Dr. Mansell explains that he was first, attempting to develop a conservative forecast, and that reinvestment in the oil sands would increase production overall, and the need for yet another pipeline. There is today plenty of opportunity for enhanced recovery in both conventional oil and gas, and that production first of all does not need to build new infrastructure and facilities, and secondly will offset declining production, hence not leading to the increased production overall as in the oil sands scenario. Dr. Priddle adds that the high proportion of investment going into the oil sands reflects, in part, new money, foreign investment. 19612

Mr. Robinson asks what will happen with increased production without Northern Gateway. Will it be shut-in or will it drive the price down? Dr. Mansell says it could also shift reinvestment more towards natural gas, which leads to an interesting discussion about decisions they made in the models.19649

Cost-Benefit Analysis

Referring to the Cost-Benefit Analysis (CBA) in Wright Mansell, Mr. Robinson focuses on the benefits that come with the price uplift, as shown in the "Base Case" scenario for NGP.

Table 5.1: Summary of Cost Benefit Results for Base Case and Sensitivity Cases

Components of Cost Benefit Analysis, Net Present Values at 8% (million 2012 Cdn$)		Base Case	Sens # 1	Sens # 2	Sens # 3	Sens # 4	Sens # 5
Direct Cash Flows from Project							
	Revenues less Investment & Operating Costs before Interest payments & after taxes	(527)	(527)	(527)	(1,053)	(1,053)	(527)
	Property Taxes	427	427	427	427	427	427
	Income Taxes	387	387	387	387	387	387
Adjustment for reducing unemployment		41	41	41	37	37	41
Cost from reduced volume on Mainlines		(416)	(416)	(416)	(831)	(831)	(416)
NGP "Needed" or not		0	0	0	0	(2,611)	0
Canadian Oil Price Uplift							
	to Private Sector	17,851	0	3,090	3,090	3,090	17,851
	to Governments	9,367	0	1,622	1,622	1,622	9,367
	Cost to Cdn refineries	(3,476)	0	(851)	(851)	(851)	(3,476)
Environmental Impacts: possible Cleanup and Damages							
	Other	(9)	(9)	(9)	(18)	(18)	(9)
	GHG	(32)	(32)	(32)	(63)	(63)	(32)
Oil Spills: possible Cleanup & Damages							
	Onshore	(22)	(22)	(22)	(45)	(45)	(6,465)
	Marine Terminal	(3)	(3)	(3)	(7)	(7)	(981)
	Offshore	(56)	(56)	(56)	(112)	(112)	(16,149)
TOTAL NET BENEFIT		23,533	(209)	3,651	2,582	(29)	(0)
Overall Social Rate of Return (IRR)		32.8%	7.6%	17.6%	11.4%	8.0%	8.0%
Base Case							
Sensitivity Case # 1 Without Oil Price Uplift							
Sensitivity Case # 2: Oil Price Uplift halved & only for 5 Years							
Sensitivity Case # 3: Double Costs and Halve Benefits, & only 5 years of Oil Price Uplift							
Sensitivity Case # 4: Double Costs and Halve Benefits, & only 5 years of Oil Price Uplift & NGP not Needed for Oil Transport until 2024							
Sensitivity Case # 5: Oil Spill Costs set high enough to offset all other benefits in Base Case (NPV8=0)							

Dr. Mansell clears up a misunderstanding that the benefits of the reinvestment of increased revenues would also be represented in this model. They are not. A cost-benefit analysis looks only at the direct effects, and not at any indirect or induced effects. Of the 47%, Dr. Mansell says the reinvestment may not actually be these dollars, but may be debt or equity leveraged in part because of them. 19675

Where are the costs?

Mr. Robinson asks why this is all shown as a benefit, since social impacts, costs to communities for health care, schools, policing, etc., and environmental impact, especially greenhouse gases will increase as a result of increased investment in oil and gas. 19696

A typical CBA looks only at gross domestic product, government revenues, labour income and employment, according to Dr. Mansell, and none of those costs are factored into it. 19696

Line 9 to Montreal and Trans Mountain

Mr. Robinson now looks at other pipelines that may increase take-away capacity from the oil sands. Will the reversal in Line 9, soon to be from Sarnia to Montreal, represent an increase in the export capacity for Western Canadian oil? Mr. Earnest is hesitant on this, but believes it will be a mix of Bakkan oil and WC crude. 19734

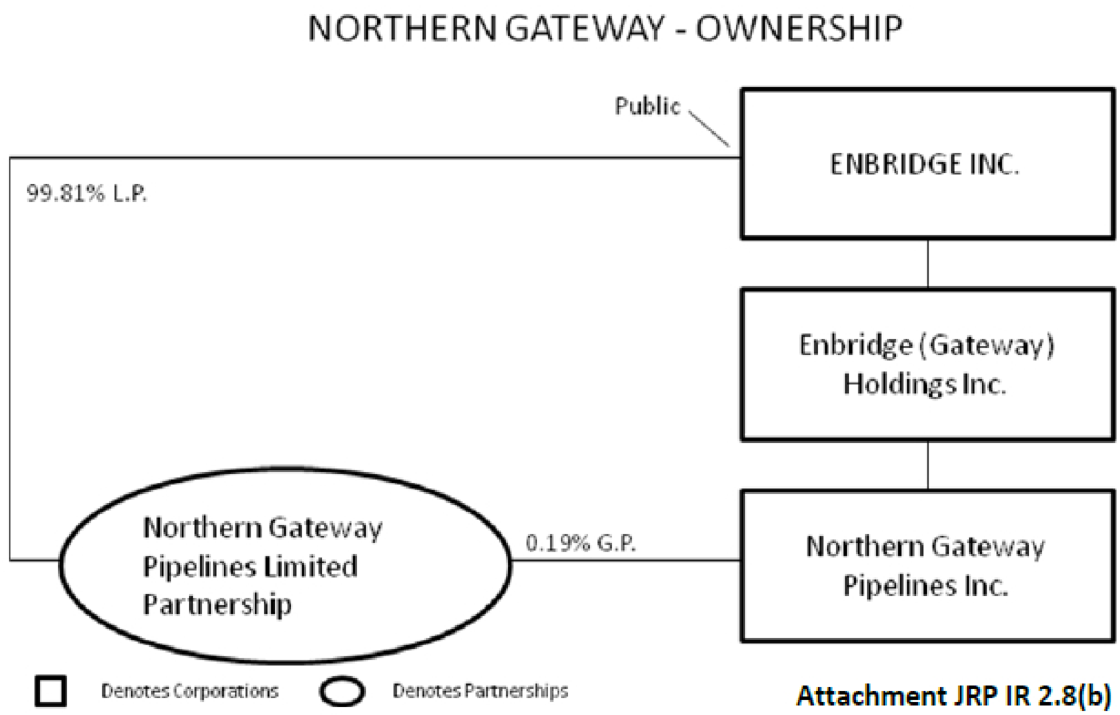
In the model, Trans Mountain is credited with 75,000 bpd of capacity, and the proposed 450,000 bpd expansion is not mentioned. Mr. Robinson asks, why not, and what would be the impacts if it were included in the model. Mr. Earnest reacts strongly: that they only included other projects which were approved, or which belonged to Enbridge. It is not appropriate to include someone else's project which hypothetically may get built first. 19751

He and Mr. Carruthers both present some reasons why in any event the Trans Mountain Expansion is very unlikely to be built before NGP. 19760

Equity interest in NGP

Enbridge currently owns virtually all of the Northern Gateway Pipelines Limited Partnership. If all 10 funding participants opt to acquire 4.9% equity in the project, their collective share would be 49%, leaving Enbridge as still the majority owner. If First Nations opt to acquire 10%, the others take dilution to 44.1% a total of 54.1%, leaving Enbridge with 45.9%. It would remain the operator, but not the majority owner. 19776

Later, Mr. Carruthers corrects the record. "I do not anticipate Aboriginal participation in the general partner, and it would be our intention to retain a controlling interest in the -- in the general partner." 19834



Mr. Robinson asks about the possibility that someone may acquire a direct interest in the project. Mr. Fisher explains how this might work, but that nothing has been negotiated in this respect, and many details remain to be worked out. Think of it as a "pipe within a pipe," he says, but they would be a shipper, like anyone else. 19792

China as a free-market player

In testimony on Day 3, discussion arose about Chinese companies acting as "rational, free-market players" or following other intentions of the Chinese government. Pointing to a Venezulan-Chinese arrangement which Dr. Priddle characterised as "logistically counter-intuitive, possibly reflecting policy rather than commercial drivers," Dr. Priddle and Mr. Earnest commented on the matter. Mr. Robinson put his question, "We've got Chinese ownership in the oil sands, and Chinese refineries receiving the product. Has Enbridge considered that Chinese interests might take a run on the pipeline between?" Mr. Fisher: "Absolutely not." 19805

Later, Dr. Priddle adds to his earlier comments, that the Chinese "National Development and Reform Commission, Department of National Economy".has as one of its responsibilities to "...formulate policy recommendations concerning national economic security and general industry security strategy." He thinks "that's the heading under which some directional guidance is given to oil importers." He also says Chinese "control is, at the moment, extremely small relative to the … 3 or 4 million barrels a day of production in Canada and would remain small even if the CNOOC acquisition of Nexen were to take place." He undertakes to get some numbers for this. 19839

Is nationality a concern for the JRP?

Dr. Priddle suggest that "the question of nationality of pipeline ownership and of ownership of upstream oil producing assets is not really a regulatory consideration but one for the policy level of federal and provincial governments." Mr. Robinson disagrees, and suggests that it is. 19845

California, and the Low Carbon Fuel Standard

Returning to markets, Mr. Robinson asks Mr. Earnest if some Western Canadian crudes are not amenable to being processed in U.S. refineries and meeting the California Low Carbon Fuel Standard. After a brief commentary, essentially, "we don't know," Mr. Earnest repeats comments he made to Ms. Chahley that "the California Low Carbon Fuel Standards are hideously complicated and it would greatly complicate the analytical efforts so we left it out of the market analysis. 19849

He also says he can't rule out the possibility that potential Asian markets might implement a low carbon fuel standard, but he's not aware of any.

Valuation of ecosystem goods and services

Turning to Mr. Anielski's Ecological Goods and Services evaluation (B83-06), Mr. Robinson states that forests have erosion control and sediment retention value, yet there is no value assigned in Table 4. Why not, and why are other cells in the table empty? Mr.Anielski replies that forest impacts of roads and right-of-way are relatively small, for one thing, and where he had no data, he left the cell empty. An empty cell doesn't mean there is no value to the ecological service, is means he doesn't have any data. 19909
Mr. Robinson brings up a report showing what an Alberta forestry company would charge a pipeline company for right-of-way loss of timber value – up to $2000/ha - and asks why there's a zero in Mr. Anielski's table for "raw materials." Mr. Anielski suggests that Mr. Robinson may be confusing the market value of the timber with the value of the ecological service it provides. 19932

Mr. Carruthers contributes to the conversation, mentioning Enbridge's "tree-for-a-tree" commitment whereby for every acre destroyed an acre will be conserved.

Mr. Anielski talks about the work he does: This work ecological goods services is still relatively new. This is the first time in my knowledge that it's been applied to the assessment of a specific project. In a sense, we're putting an estimate on what we might call the unfunded liability to the ecosystem of potential damages.This is an emerging accounting field. Not all those cells are filled in, by any means, but this does set precedent. 19964

Greenhouse gas pricing

In the Wright Mansell analysis $20 per tonne of CO2 equivalent has been used for GHGs in the cost benefit analysis. Drawing on a report prepared by the National Roundtable of the Environment, Mr. Robinson observes that for Canada to meet its 2020 CO_2 emissions targets, two-thirds of the policy initiatives will need to price carbon at or above $50. $20, he argues, seems quite low.

Mr. Ruitenbeek replied that in setting a price, they first looked at market prices, and discovered that BC's Pacific Carbon Trust is selling carbon for $25/tonne, Alberta's price is $15, and current European pricing is about $10.

So why doesn't that apply in the case of timber? Mr. Ruitenbeek: We are always looking at the marginal or extra impact of a project or of an activity. If there is a small marginal impact or if that impact would have been suffered or experienced in any event, then the extra impact from the project is very low. In the case of the trees, they are in forest land and would be cut anyway. 20043

Long term valuation of the oil sands

Mr. Robinson asks whether there is an analysis which evaluates the value in the future of the oil sands and compares it to the future value with NGP operating for the period and causing a marginal increase in production. Dr. Mansell they have not done that analysis, but it would be a problem because oil and gas resources are continually in flux, frequently increasing despite ongoing production, because of technological improvements that enhance recovery and find new supplies. 20059

Economy and environment. And a question

The Wright Mansell analysis quotes from a speech by the Governor of the Bank of Canada in which he advises that Canada expand exports into the world's fast growing markets as it will be key to achieving growth and prosperity in the years ahead. Mr. Robinson observes that China, although a fast growing market, ranks poorly for its environmental performance. Some discussion takes place. 20069

When Mr. Robinson moves on to another topic, Mr. Roth interrupts with a complaint – that Mr. Robinson managed to get his opinion and the issue into the record, without asking a question. 20096

Mr. Robinson asks a token question, and Mr Ruitzenbeek responds with a substantial discourse on the subject of economies and environmental performance. 20098

Potential US restrictions on oil sands imports

The Wright Mansell study notes the possibility of emerging U.S. policies that penalize oil sands production or otherwise reduce access to U.S. markets for growing oil sands production. Mr. Robinson asks if Dr. Mansell is saying such policies would be contrary to the Canadian public interest. 20121

Dr. Mansell's concern is that "the objective is to stop to oil sands as opposed to argue that there should be a fair or level playing field in terms of the life cycle emissions associated with crude from the oil sands compared to heavy oil from other parts of the country." His example is barring material from the oil sands while allowing heavy California crude which has a comparable environmental impact.

Examination by Tim Leadem for the Coalition 20154

In B83-5 - Reply Evidence of Roland Priddle, Mr. Priddle says, “"The only appropriate course of action for governments and regulators is to let markets and their choices work to the greatest extent possible.” “Therefore projects that can pass rigorous regulatory scrutiny in regard to their environmental and socio-economic impacts should receive approval.” Mr. Leadem confirms this statement, and its converse. 20186

In his Conclusions, Mr. Priddle argues that “this project should proceed -- and should receive certification.”

Mr. Leadem then explains to the Panel that he hopes to ask Mr. Priddle some questions about a 2004 report by Mr. Priddle and two other panel members entitled “The Report of the Public Review Panel on the Government of Canada Moratorium on Offshore Oil and Gas Activities in the Queen Charlotte Region, British Columbia”, (commonly known as the Priddle Report) then tender this report into evidence. He obtains the consent of Mr. Roth, and the Chairperson lets him proceed.

In this report, one of the Conclusions was, “Regarding seismic testing there are a number of information gaps that would need to be addressed to assess the residual environmental effects. As to major oil spills, should one occur, it does not appear likely that currently available mitigation measures would be effective in reducing residual effects to insignificant levels.” 20253

The Priddle Report: AQ or Evidence?

Mr. Leadem then asks to have the Priddle Report accepted as evidence. Mr. Roth objects. Mr Leadem rebuts. Mr. Priddle interjects. The Panel will decide.

Mr. Carruthers’ opening speech

Mr. Leadem gets in a couple of preliminary question about Mr. Carruthers’ opening speech at the hearing, runs out of time, and will continue on September 17.