Northern Gateway Pipelines
JRP Hearing Notes

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Features for enhanced use:
- Link to the day's transcript
- Links to specific topics and discussions

Contents

Order of Appearances 1
Examination by Tim Leadem for the Coalition (continued) 1
Examination by Chris Peter for CJ Peter Engineering 2
  GHGs well-to-wheel of NGP 2
Examination by Terry Vulcano 3
  Demand potential in northeast Asia 3
  Dire effects of insufficient pipeline capacity 4
  The virtue of markets 4
Examination by Hana Boye for the Haisla Nation 5
  Chinese ownership 6
  Funding Participants, PetroChina and NGP 6
  Updated reports 7
  Forecasting prices and differentials 7

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]

- Examination by Mr. Leadem (continued) 20384
- Examination by Mr. Peter 20494
- Examination by Mr. Vulcano 20743
- Examination by Ms. Boye 21160

Examination by Tim Leadem for the Coalition (continued)

Mr. Carruthers agreed with Mr. Leadem that the majority of the benefits of the project go to humans, not other species. Research would continue, he said, which may provide a benefit to other species. He used Wright Sound as an example where NGP will be 11% of the traffic. He expects some ongoing research projects to be a condition of certification.

Stating that "the point of this exercise" is to put evidence on the record, Mr. Leadem asks Mr. Priddle to confirm certain statements from the "Priddle Report." One of these explains that presenters were allowed 15 minute presentations, followed by 10 minutes of questions by the panel. He also confirms that 75% of the presenters were in favour of keeping the moratorium on oil and gas exploration and 23% were in favour of lifting it. 20440

Returning to Mr. Priddle's reply evidence [B83-5], Mr. Leadem first confirms with Mr. Priddle that the crude oil pipeline will have a design capacity of 525,000 bpd. Mr. Fisher clarifies that it's actually 588,000 bpd. Mr. Priddle then confirms that the pipeline "if "fully powered would have a capacity of 850,000 bpd." 20461

Mr. Leadem ends his examination by establishing with Mr. Priddle that the addition of pumping facilities would require a regulatory process, which includes an environmental assessment. 20478

Examination by Chris Peter for CJ Peter Engineering 20494

Mr. Peter stated that he will be questioning about greenhouse gases in the context of the economics of greenhouse gases and their role as inputs into the cost benefit analysis provided by Wright Mansell [B83-4]. The 2010 version stated that "annual operations and maintenance expenditures for the pipelines and related facilities amount to $176 million per year." The 2012 version says $341 million. Mr. Peter asked to know why the difference. 20503

Dr. Mansell replied that it's the difference between 2009 dollars and 2012 dollars, and a substantial increase in capital costs. 20512

Turning to greenhouse gases, Mr. Peter noted that CO2e costs will be $2 million a year during construction, $4 million a year during operation. Dr. Ruitenbeek explained the GHG emission costing attributed a value of $20 per tonne. 20528

GHGs well-to-wheel of NGP

Mr. Peter confirmed that the valuation "is by no means a well-to-wheels [total] for the hydrocarbons transported by Northern Gateway?" and Dr. Ruitenbeek stated that "It's just for the impact of the Northern Gateway Project. It includes the pipeline, the marine terminal and the operations of tankers in Canadian waters." 20536

Mr. Peter and Dr. Mansell reviewed life-cycle CO2e emissions of various crude oils, noting that transport is actually a very small component, but that upgrading and refining produce a considerable portion of the GHG emission total. Mr. Peter extracted this quote from the evidence: "Under current Alberta policy, any large carbon emitter unable to meet a 12 per cent reduction in emissions intensity is required to pay into a technology fund an amount equal to $15/tonne for every tonne exceeding the emissions reduction target," and asked Dr. Mansell if the 12 percent penalty does not act as "a disincentive to upgrading in Canada and an incentive to the export of unrefined product via Northern Gateway." And whether it runs counter to Alberta's "long run goal … to increase the amount of upgrading in Canada?" 20615

Dr. Mansell did not see it that way, and explained that it's the change in intensity ratio, "the change in the emissions for each of those components which determines the amount of tax." Mr. Peter confirmed: "So a large upgrader would be looking at changing its processes to reduce carbon emissions rather than suddenly packing it all in and shipping dilbit?" 20631

Mr. Roth, Enbridge's lawyer, eventually objected to Mr. Peter questioning on the grounds that he was ranging well off-topic, was arguing rather than questioning, and even that he was conducting a sweetheart line of cross-examination. The Chairperson directed Mr. Peter to get to the questions, and establish their relevance. 20675

Mr. Peter calculated that the total well-to-wheels GHG impact of the oil transported in NGP would be 37 million tonnes, and asked Dr. Mansell, "for these emissions to be entered into some economic ledger somewhere as offsetting the economic benefits of their release and as a social cost to the planet?" Dr. Mansell stated that the cost-benefit analysis only looks at direct benefits and costs, and in any event, NGP doesn't impact the amount of oil produced. Dr. Ruitenbeek added that according to international protocols, "Canada is responsible for its emissions within its own country, not for emissions in countries to which it may be exporting its products" and it would be "highly irregular to include those within Canada's … debit accounts" for GHGs. 20710

Examination by Terry Vulcano 20743

Referring to the pro-forma precedent agreement in the application (Volume2, Appendix C), Mr. Vulcano asked, "Who will be the shipping companies, will it be owners of water vessels?" Mr. Fisher responded, "No, … the shipper will be the party that contracts for capacity on the pipeline. They could be Canadian producers. They could be Asian refiners or marketers."

Asked if there would be bidding for capacity on the pipeline, and what happens when the long-term contracts expire, Mr. Fisher continued that they would consider posting capacity for bidding. "If a shipper signs a 15-year term, they would have an option to renew for one five-year period. If they signed a 20-year term, they would have two five-year renewal options." 20775

Mr. Vulcano also established that 72,000 barrels of capacity on the Trans Mountain pipeline that could go to Asia, or California, or even to the Gulf. 20785

Demand potential in northeast Asia

In response to a number of questions from Mr. Vulcano, Mr. Earnest reiterated information from the Muse Stancil report about demand potential in northeast Asia for Western Canadian crude. He reaffirmed that NGP is not changing global crude supply, that it won't evoke a response from the Saudi's and it won't change global pricing.

In response to a question about fluctuating oil prices and even a collapse of the market and the potential impact of that on NGP, Mr. Fisher replied that the company will have long term binding take-or-pay contracts from shippers who will have to pay for the pipeline, whether they use it or not. 20954

Dire effects of insufficient pipeline capacity

Mr. Vulcano asked Mr. Priddle what he meant by saying “Effects of failure to expand pipeline capacity are clearly dire.” Mr. Priddle explained that the pipeline portion of the delivered costs of a barrel of oil is actually very small. Consequently, the loss to producers because of an inability to deliver their oil to advantageous markets is very large, relative to the cost of transportation. Every pipeline is full and there is a shortage of pipeline transportation. 21010

The virtue of markets

Asked about the statement from Natural Resources Canada that “Markets are the most efficient means of determining supply, demand, prices and trade..,” Mr. Priddle says that since Canada’s Western Accord of 1985, “markets have worked most effectively to encourage Canadian oil and gas resource development to allocate the oil and gas in an optimal way and to reap enormous benefits regionally and nationally.”

Mr. Priddle’s support for markets is captured in this extended quote from the transcript:

“I think it's an absolute triumph when one compares that experience post-1985 with the, frankly, extremely disappointing experience of various federal and provincial government interventions in the oil sector that basically started with the National Oil Policy of 1961 and reached its apogee with the October 1980 National Energy Program.”

“Those, particularly the National Energy Program was a top to bottom disaster from an industry standpoint, from a standpoint of inter-regional tensions in Canada, and the frictions which it created with Canada's trading partners, particularly the U.S.A. but also other trading partners who had investments in the Western Canadian industry.”

“I'm very comfortable with the position that the federal government takes here.” 21030

Mr. Vulcano introduced as an Assist to Questioning a report entitled Oil-The Next Revolution by Leonardo Maugeri, published in 2012. The report posits that “oil supply capacity is growing worldwide at such an unprecedented level that it might outpace consumption. This could lead to a glut of overproduction and a steep dip in oil prices.” 21059

He asked the witnesses how a price collapse might affect NGP and its shippers. Mr. Carruthers replied that NGP was primarily developed to access another market, regardless of oil price. He characterized the presence of NGP as an opportunity for shippers. 21066

Dr. Maugeri says, “additional production in Iraq, U.S.A. and Canada could have a strong impact on the global oil markets.” Mr. Vulcano took this to be at odds with earlier assertions that NGP will not change global oil supply which Mr. Earnest pointed out is a misunderstanding. NGP will not affect oil supply, just where it goes. 21084

Turning to the Aboriginal Equity Program, Mr. Vulcano asked, “Why was it limited to 10 percent?” Mr. Carruthers said, “you need to have a balance” and “10% is relatively significant” and it has to do with the “amount that the project can fund.” He explains that the program allows Aboriginal Groups who want to participate to collectively borrow the funds from the project to acquire the equity, and pay back the loan from their share of revenues from the project. 21103

Examination by Hana Boye for the Haisla Nation 21160

Ms. Boye began by asking Mr. Carruthers about Enbridge’s Corporate Social Responsibility Policy and its core values. He spoke about “conducting business in an open, honest, and ethical manner”, and transparency refers to “measuring, auditing and publicly reporting performance on our corporate social responsibility programs.” He spoke about integrity and truthfulness. Ms. Boye asked whether these values are reflected in documents produced on the evidentiary record, are they truthful, and Mr. Carruthers answered, “Yes.”

She then put up a newspaper article about a depiction of Douglas Channel used by Enbridge in a video. Instead of the numerous islands and tight turns typical of the channel, it shows a wide-open waterway.

Enbridge Inc. says its video, which depicts Douglas Channel as an open waterway, is meant to be "broadly representational." Photograph by: Enbridge Inc.

Ms. Boye asked if Mr. Carruthers agrees that this image does not accurately display the geographical reality of Douglas Channel. He said, “It wasn’t intended to be that specific.” Ms. Boye: “Was it intended to present the Douglas Channel as a route that could be perceived as safer than it actually is?” Mr. Carruthers, “That was not the intention.” Her questioning continued in this manner until Ms. Boye asked “Given that it is not meant to be detailed, would you agree that an intention to detail is important when you're proposing to pipe a highly toxic substance through a pristine ecosystem?”

Mr. Carruthers agreed that “in terms of actually designing and building and operating the pipeline, there would need to be attention to detail.” Ms. Boye: “And it's that type of inattention to detail that brings about oil spills like Kalamazoo; is that correct?” Mr. Carruthers replied, “No, I’m not”.

Chinese ownership

Ms Boye asked Mr. Fisher, “In your application, you tell us that the funding partners are Asian market area interests, but in your communications with shareholders you expressly state that these are Asian Pacific Rim refiners; is that correct?” Mr. Fisher agreed, and Ms.Boye asked, “Why has Enbridge provided more information to its shareholders than it has disclosed in this application?” Mr. Fisher suggested that Enbridge has supplied less information to shareholders. 21305

Ms. Boye then asked about companies owning refineries in China, and from a list in the Muse Stancil report names China National Petroleum Corp. and its subsidiary, PetroChina, Chinese National Offshore Oil Company (CNOOC), and Sinopec. She confirmed with Mr. Earnest that the great preponderance of refining capacity in China is owned and operated by PetroChina, CNOOC and Sinopec. He could not say what percent of refining capacity they own, or provide details about the degree or nature of state ownership.

Mr. Fisher stated that he could not identify the funding participants because of confidentiality agreements. Ms. Boye asked, “By keeping investors' identity a secret, how is that consistent with Enbridge's corporate social responsibility policy of transparency?” Mr. Fisher said the ones who have not been disclosed are not yet funding participants and the company is bound by the confidentiality agreements, unless the companies themselves give permission. Ms. Boye: Would you ask them? Mr. Fisher: Yeah. 21355

Nevertheless, the Panel rejected Ms. Boye’s request to have this made an undertaking. 21396

Funding Participants, PetroChina and NGP

Ms. Boye cited a news item about PetroChina expressing an interest in building the NGP and purchasing an equity interest from one of the existing funding participants. She asked how that transaction would happen. Mr. Fisher explained that it would essentially be between the two companies, but expected that Enbridge would be brought in to facilitate. 21400

In a set of questions about the funding participants, it was reiterated that the ten funding participants contributed $10 million to obtain three options: 1) to secure 50,000 bpd of capacity on the oil pipeline at a “Founding Shipper toll”, 2) to secure 17,000 bpd of capacity on the condensate line at the same toll, and 3) to acquire 4.9% equity in the project. 21458

Mr. Fisher volunteered that only Enbridge has ownership to date, and in reply to a question, that the options allow a participant to take capacity on one pipeline or both.

Updated reports

Ms. Boye turned to the 2012 update of the Muse Stancil report and through a couple of questions obtains Mr. Earnest’s opinion of the major changes from the earlier version. These are: the CAPP 2011 Supply Forecast, rail as an alternative, Flanagan South Pipeline, and twinning of Seaway Pipeline (between Cushing and Houston). 21482

Her next set of question are to Dr. Mansell, about which tables he used from Muse Stancil (oil price uplifts and those which deal with impacts on refineries), when he received them for the update report, and about his confidence that the results are reasonable. Dr. Mansell emphasizes and names some of the steps they took to ensure a conservative outcome in their modelling, so as to “purposely ensure we would not over-estimate the impacts” of the NGP. 21453

Ms. Boye identified that Athabasca Synbit was not included in the 2010 Muse Stancil report as it is in the 2012 update. Mr. Earnest explained that it was new in the CAPP 2011 Supply Forecast and that is where it came from.

Forecasting prices and differentials

Ms. Boye asked some questions to better understand the relationship between Brent and West Texas Intermediate (WTI) oil pricing. Mr. Earnest described how WTI tends to move in concert with Brent, but the reverse is not true. He also confirmed that today there is a sizable price difference ($20 is given) between the (lower) WTI and the (higher) Brent. 21615

She confirmed with Dr. Mansell that there is an even larger discount ($30) beween the Western Canadian crude available to Canada’s refineries, and Brent.

Mr. Priddle had said that yesterday’s differential was $18, he knew, because he’d just checked online. The Chairperson more-or-less said that Google had not been accepted as evidence, and that “it would be best to speak only to the evidence that’s on the record in the future. Thank you.” 21631

Ms. Boye referred to tables which show a price differential between WTI and Brent of $7.89 in 2012, and asked why their discussion has been based on an understanding that the current differential is in the $20-$30 range.

“What has surprised us and what has surprised the marketplace is the rate of increase in light sweet crude production in both Western Canada and even more so in United States,” replied Mr. Earnest. “The rate of increase and Bakken production, West Texas, mid-continent has been astonishing, and it's -- we didn't forecast that.” “It is difficult to predict forward oil prices, yes.” 21755

Ms Boye asked, “How confident are you in your ability to predict out over the 18-year forecast?” Mr. Earnest’s reply began, “It is an absolute requirement if you're doing analytical work on the impact of major infrastructure projects in North America that you use a price forecast. And so we did. … Now, the differentials you see down here for -- particularly for years '12 through '17, are just what our price forecasting guys put out.”

Ms. Boye replied I think that’s probably sufficient. It's just to confirm that your price forecasting guys didn't anticipate this deep differential in 2012. 21774