

# Daily Oil Bulletin

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## Northern Gateway Needed, Says CAPP

*By Elsie Ross*

There is a clear and demonstrated need for the proposed Northern Gateway project to the West Coast and it is in the public interest that it be approved, an industry group said Tuesday.

"The economic consequences of shut-in are simply unacceptable," **Keith Bergner**, counsel for the **Canadian Association of Petroleum Producers**, said in final oral argument before the Joint Review Panel in Terrace, British Columbia. "The failure to proceed with this application would cause huge economic costs to Canada -- not to producers alone -- but to Canada."

The **National Energy Board** in the past has noted the adverse impacts that can arise if supply is unable to reach markets, he said. "Conversely, if the supply can reach markets, the economic benefits will be significant."

Doing nothing in this current situation is not an option, the panel was told. "More pipeline capacity is clearly needed."

The association agrees with **MEG Energy Inc.**, which said in its written argument that "the level of apportionment experienced on Canadian crude oil pipelines combined with the discounting of Canadian crude oil prices for crude oil shipped to U.S. markets makes additional pipeline capacity, as well as market diversification, imperative for the crude oil industry," said Bergner.

CAPP, he said, has watched with increasing and growing concern as other projects that have received regulatory approval face ongoing delays that have prevented -- thus far -- supplies connecting to markets.

Bergner said CAPP is satisfied that the proposed Northern Gateway project can proceed in an environmentally responsible manner with due regard for the interests of aboriginal groups and other public interest concerns.

The association disagrees with the **Alberta Federation of Labour**(AFL) and the **Communications, Energy and Paperworkers Union** (CEP), which opposed the project on the grounds that it would be exporting jobs along with diluted bitumen. "The position that CAPP takes issue with is the voice of protectionism and market restriction," said CAPP counsel.

AFL counsel **Leanne Chahley** had argued there would be greater economic benefit for Canadians if crude oil was upgraded and refined in Alberta instead of being exported.

However, the Northern Gateway application is not about a choice between upgrading and refining on one hand and exports on the other, said Bergner. "This application is about a pipeline and a pipeline designed to reach new markets."

Once that pipeline is in place, he pointed out, it can be used to ship a wide variety of petroleum products, whether be they crude oil, bitumen, conventional crude oil or refined products. "That has been the experience all across Canada with other crude oil pipelines and there is no reason to think this pipeline would be any different."

When it comes to refiners and upgraders, it's CAPP's position that they will be built in Canada where it makes economic sense to do so, the panel was told. "That is a decision for the market to make," said Bergner.

In CAPP's view, the AFL submission presents a false choice, he said. "There's no evidence in this proceeding to suggest that denial of this application would lead to more refiners and upgraders being built in Canada; that's a decision for the market, not the subject of this application."

CAPP also took issue with the CEP, which argued that approval of Northern Gateway would be adverse to "the substantial economic development and job creation that comes from upgrading and refining." These issues have been raised before in previous NEB proceedings such as Alberta Clipper, Keystone and Keystone XL and were rejected by the board, said Bergner, who urged the panel to again dismiss these arguments.

Bergner also disputed the suggestion presented by the AFL that producers would continue to produce bitumen in the absence of Northern Gateway and they would not be harmed economically because production is still profitable.

"Even if you ignore the adverse impact that lower prices would have on producers ... there is a significant material adverse impact on Canada, on all Canadians," he said. "Lower prices for crude oil mean lower royalties and lower taxes," said Bergner.

"This is not a producer issue; this is a Canadian issue and the effect of lower prices would cause Canada to lose out on a significant benefit," the panel was told. "It's selling a non-renewable resource at a lower price."

While Bergner said there was much discussion at the hearing on aboriginal consultation and its adequacy, "this hearing process has provided aboriginal groups with an opportunity to make known their concerns and many interveners have taken the opportunity to do just that."

The evidence, he said, demonstrates that Northern Gateway has designed a public consultation program adequate for the purpose of identifying and understanding the potential impacts of the project on aboriginal people.

"In CAPP's submission, Northern Gateway took the concerns raised very seriously, including the issues and concerns around environment, land, land use, the rights and interests of aboriginal groups and the other concerns that have been raised," said Bergner. "There has been substantive evidence provided that the impacts are manageable and are capable of mitigation."

The panel also heard support for the project from Northern Gateway funding participants **Cenovus Energy Inc.**, **INPEX Canada Ltd.**, **Nexen Inc.**, **Suncor Energy Marketing Inc.** and **Total E&P Canada Ltd.** Directly or through affiliates, the companies have executed funding support agreements and precedent agreements with **Northern Gateway Pipelines Limited Partnership** for transportation on **Northern Gateway Pipelines Inc.**'s applied-for oil and condensate pipelines.

Counsel for the group, **Bernette Ho**, said the panel should find there is sufficient evidence of commercial support for the project.

There's a logical reason why binding TSAs (transportation service agreements) have not yet been executed, she said. Northern Gateway still has to gather more information in the form of a Class 3 estimate and the funding participants still need to examine that information to fully understand the costs and economics associated with the project, she said.

The funding participants have indicated that if everything goes as planned they expect to execute the TSAs, Ho told the panel. "The funding participants consider both their time and financial commitment to date to be significant evidence of their commercial support for the Northern Gateway project, all of which is at risk if approval for the project is not granted or the project is not built."

Ho also challenged the AFL's submission that the funding participants do not expect to capture an "Asia premium" or base their support for the project on it. "During the proceedings, Cenovus clearly indicated that it expects there to be a price lift as a result of the Northern Gateway project and this view was confirmed during questioning by testimony provided by other funding participants."

The funding participants also are opposed to a proposed condition for pipeline approval that would double the amount of capacity reserved for non-term shippers on both the crude and condensate pipelines to a minimum of 10 per cent from the five per cent in the application, said Ho.

During the hearing, a Cenovus panel member indicated that such a condition "would not be looked at favourably" because a whole package of terms has been negotiated, she said. "Expansion of the spot capacity would take away from the package of rights reached via negotiation and make it less attractive." Other funding participants expressed similar views, emphasizing that it is about economics and guaranteeing the capital of the project, Ho told the panel.