Pipeline to Nowhere?

Uncertainty and unanswered questions about the Enbridge Northern Gateway pipeline

December 2010

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Background

- Enbridge has applied for federal approval to build the Northern Gateway pipeline, which if approved would export 525,000 barrels of oilsands products per day via a port in Kitimat, B.C.

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Tanker traffic on B.C.'s North Coast

- About 225 tankers a year would travel through the Great Bear Rainforest to reach the port in Kitimat. Some tankers would carry up to two million barrels of oil.

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Broad public opposition

- In December 2010, a motion to legislate a tanker ban on B.C.’s North Coast passed in the House of Commons. A private members bill on the same subject was also tabled.
- 70 B.C. First Nations have declared oil tanker and pipeline bans under their traditional laws.
- The Union of B.C. Municipalities passed resolutions opposing the Enbridge project.
- Polling shows 80% of British Columbians oppose opening the North Coast to oil tankers.

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Weakening U.S. climate policy

- Government and industry wielding threat of exporting higher carbon oilsands to Asian markets to undermine U.S. climate policies.
- Government of Canada actively working to weaken federal and state climate legislation in the U.S. that would force environmental performance improvements in the oilsands sector.

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Pipeline to nowhere?

- Is there demonstrated demand for this pipeline?
- Is there a need for more export pipeline capacity?
- Does the Joint Review Panel have enough information to make an informed decision?

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No shipper agreements

- Shipping agreements provide clear signal that there is demonstrated market demand for additional pipeline capacity.

- Unprecedented for an export pipeline that intends to use long-term shipper agreements to submit an application without any agreements in place.

"In essence, the whole basis upon which pipeline competition has operated since deregulation would shift from being a race to obtain contractual support for new services, to a race predicated upon who appears first before the regulator for approval of a concept and where no market support for that concept is needed."

— Letter from Kinder Morgan
to the Joint Review Panel

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Top-secret “funding participants”

- Combination of Canadian producers and Asian market interests who have committed to ten $10 million units ($100 million total).
- A $10 million placeholder for a prospective $5.5 billion pipeline project is a small price to pay.
- Enbridge refuses to disclose identities of these “funding participants”
- Secrecy impinges upon ability of panel and public to weigh commercial viability.

Refinery analysis lacking

- Lack of detailed refinery analysis contrasts sharply with other recent export pipeline applications.

- No attempt to differentiate potential markets for diluted bitumen vs. synthetic crude oil, both of which are proposed to be transported in the pipeline."

- Refineries need to be specially equipped to handle bitumen

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Exporting pollution

- Federal Conservatives have committed to preventing export of raw bitumen outside of Canada for upgrading to take place in countries with lower pollution or greenhouse gas standards.

- Enbridge has provided no analysis that shows how its exports would comply with this policy, expected to come into effect in January 2011.

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"The pipeline capacity has gotten far ahead of the export demand — that's the major impediment to Gateway."

— Chad Friess,
Oil and Gas Analyst with
UBS Securities

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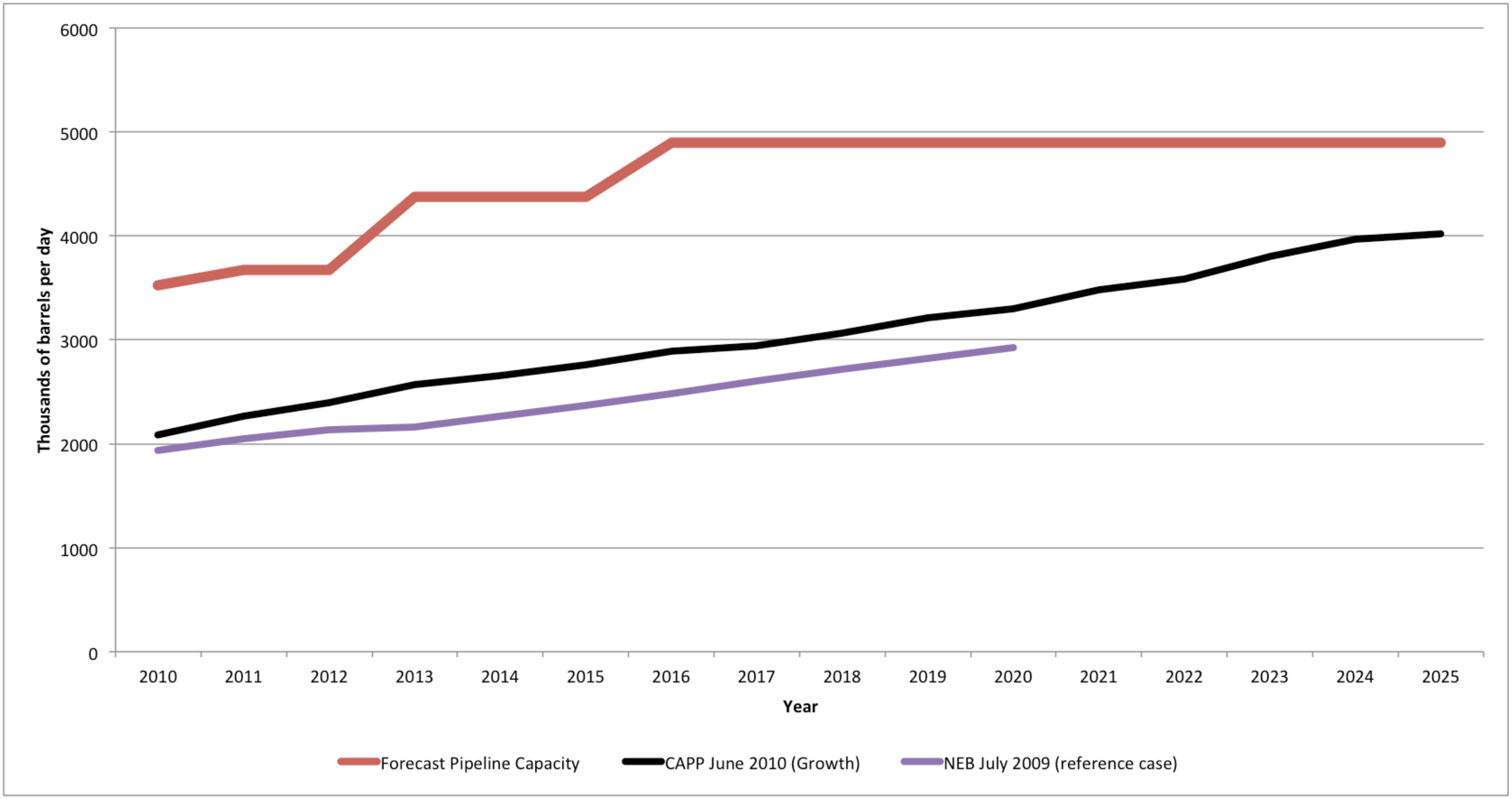
Export pipelines awash in capacity

- If both TransCanada Keystone XL and Enbridge Northern Gateway pipelines are approved and in operation in 2016 (a core assumption of Enbridge’s application), there will be 41% overcapacity — that’s two million barrels per day.

Export pipelines awash in capacity



Lack of information

- Inadequate assessment of alternatives to the project, such as expansion of Kinder Morgan's existing pipeline
- No information on upstream impacts from 30% increase in oilsands production required to fill the pipeline.
- Economic assessment doesn't include environmental liabilities and economic externalities, such as loss of refining jobs and ecosystem services.

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Recommendations

- The Joint Review panel should not proceed further until Enbridge has filled information gaps and fully answered the questions raised in this report.
- If the panel were to proceed despite the uncertainties, it will establish a new precedent that stands to erode the integrity of the regulatory review process.

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Before the Joint Review Panel proceeds, Enbridge should:

1. Secure and make public long-term shipper commitments.
2. Conduct a refinery-level demand analysis.
3. Demonstrate refinery compliance with Canadian environmental standards.
4. Keep pipeline capacity and production estimates linked.
5. Provide an adequate alternatives assessment.
6. Quantify upstream impacts from additional oilsands development.
7. Present the full cost of the pipeline.

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