

ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

NOVA PIPELINE VENTURES LTD.

APPLICATION TO CONSTRUCT AND OPERATE

A NATURAL GAS PIPELINE

WOOD BUFFALO LAKE TO FORT MCMURRAY AREA

Addendum to Decision 98-20

Application No. 1026917

1 DECISION

The Alberta Energy and Utilities Board (EUB or the Board) in Decision 98-20 approved Application No. 1026917 by NOVA Pipeline Ventures Ltd. (Ventures) and issued the required pipeline approval. The reasons for Decision 98-20 are set out below:

2 APPLICATION AND HEARING

Ventures applied to the EUB, pursuant to Part 4 of the *Pipeline Act*, for an approval to construct and operate a 110-kilometre (km), 610-millimetre (mm) outside diameter (OD) pipeline for the purpose of transporting natural gas from an interconnection with the existing NOVA Gas Transmission Ltd. (NGTL) Liege Lateral pipeline at Legal Subdivision 13, Section 18, Township 86, Range 18, West of the 4th Meridian, to a NGTL meter station proposed to be located at Lsd 16-15-92-10 W4M (the Application). The attached figure illustrates the proposed routing of the Ventures pipeline.

In response to a public notice issued by the EUB, Simmons Group Inc. (Simmons), and Clan Duncan Resources (Clan Duncan) registered their objection to the application. Accordingly, the Board directed, pursuant to section 29 of the *Energy Resources Conservation Act*, that a public hearing be held to review the application.

The public hearing of the application was held in Calgary, Alberta on 13 and 17 November 1998, before Board Members J. D. Dilay, P.Eng., T. McGee, and Acting Board Member F. Rahnama, Ph.D.

THOSE WHO APPEARED AT THE HEARING

Principals and Representatives (Abbreviations Used in Report)

NOVA Pipeline Ventures Ltd. (Ventures)
H. D. Williamson, Q.C.

Suncor Energy Inc. (Suncor)
L. H. Olthafer

Simmons Group Inc. (Simmons)
J. B. Ballem, Q.C.

Clan Duncan Resources (Clan Duncan)
G. J. Fitch

Canadian Association of Petroleum
Producers (CAPP)
N. J. Schultz
C. Nelson

Canadian Western Natural Gas (CWNG)* &
Northwestern Utilities Ltd. (NUL)*
E. R. Bourgeault

Alberta Energy and Utilities Board staff
M. Bruni, Board Counsel
P. V. Derbyshire
K. Johnston
S. Lee, P.Eng.

Witnesses

J. A. McPherson
D. Cornies of NOVA Gas Transmission
M. Shaw, P.Eng.

* CAPP, CWNG, and NUL appeared at the hearing but did not participate.

3 ISSUES

The Board considers the issues respecting the application to be:

- the need for the proposed pipeline,
- location of the proposed NGTL meter station, and
- the corporate relationship between Ventures and NGTL.

At the hearing, Simmons withdrew its objection. Clan Duncan acknowledged that there is sufficient demand for new natural gas pipelines in the Fort McMurray area, as evidenced by its own proposed pipeline project, and therefore had no objection to the Ventures application.

4 NEED FOR THE PIPELINE

4.1 Views of the Applicant

Ventures indicated that additional pipeline capacity will be needed in the Fort McMurray area to accommodate an expected increase in the demand for natural gas, primarily from oil sands operations and from other new oil and gas activities in the region. Specifically, Ventures has negotiated gas transportation contracts with Suncor for a major expansion of its oil sands upgrading facilities and with Novagas Canada Limited (NCL) for its proposed liquids extraction plant.

Ventures further stated that the existing Simmons pipeline is already operating at or near its limit, including supplying gas to the city of Fort McMurray, where the demand is also expected to grow along with the industrial development in the region. Acknowledging the emerging tightness in the pipeline system, the larger industrial consumers requested proposals from several pipeline companies for new capacity to service the regions. The Ventures' proposal was one of several competing proposals, including one from Simmons, and it was Ventures that ultimately secured service agreements with both Suncor and NCL.

Ventures further presented evidence that the 610 mm OD pipeline was adequately sized to meet not only the needs of customers contracted for service on the pipeline, but also longer-term requirements of customers, including contingency for planned upset conditions and outages on existing pipelines servicing Suncor's facilities.

4.2 Views of the Board

The Board accepts Ventures' evidence that existing pipeline capacity is inadequate to supply a significant increase in the demand for gas in the region in question and, therefore, such new demand must be supplied from new pipeline capacity. Although the timing of such capacity additions may be at issue, particularly when oil prices have been depressed for an extended period, the Board does not dispute the basic proposition that existing pipeline capacity is inadequate for the region's long-term requirements. Therefore, the Board views the proposed pipeline as a necessary addition to regional pipeline capacity.

Since the participants to the contract negotiations have apparently satisfied themselves that the time frame for construction of the proposed facilities is appropriate, the Board does not take issue with the project's timing, notwithstanding the comment on prevailing oil prices.

Further, the Board accepts that the pipeline was properly sized to meet incremental gas markets and that the construction of this pipeline would not cause the Suncor and Simmons pipelines to become underutilized.

5 LOCATION OF PROPOSED NGTL METER STATION

5.1 Views of the Applicant

Ventures stated that it would enter into an “other services” (OS) agreement with NGTL pursuant to which NGTL would provide delivery service at the interconnection point, construct associated facilities, including a meter station for the custody transfer measurement of gas, and operate the pipeline and associated facilities. Ventures stated that, as of the date of this hearing, NGTL has not filed the application for the meter station.

NGTL (on behalf of Ventures) stated that the meter station would be located at the delivery end of the proposed pipeline near Mildred Lake. NGTL stated that the choice of this location, though contrary to NGTL’s normal practice, was based on cost and reliability. It stated that because of the closeness of the proposed meter station to the Suncor plant, operating staff would have ready access to it in the event of malfunction or flow interruption. NGTL stated that it also has a measurement operation technician living in Fort. McMurray who would have immediate access to the delivery point.

NGTL stated that, since the pipeline and meter station would be designed and operated by NGTL, it would meet NGTL’s standards for reliability. The risk of there being any problem doing material balance on the line would be remote as it could be accomplished using recorded pressures at both ends of the pipeline.

NGTL stated that locating the meter station at the interconnection point of the pipeline near Buffalo Creek would not be appropriate because of limited access, both in summer and winter. It also stated that adding another meter station at Buffalo Creek would provide no benefit and would therefore be a redundant expense.

5.2 Views of the Interveners

While interveners did not specifically object to the yet-to-be-applied-for meter station, Simmons and Clan Duncan raised questions regarding the proposed location of the meter station.

5.3 Views of the Board

The Board notes that NGTL has not filed the application for the meter station as of the date of the hearing. The Board also notes that no interveners at the hearing raised any strong objection to the meter station. The Board is satisfied that the Mildred Lake location has easier access for operators than the Buffalo Creek location, and would therefore result in more timely response in the event of malfunction or flow interruption. The Board accepts that locating the meter station near Mildred Lake would pose no major problems for line balance, and would be appropriate from a cost and response perspective.

6 CORPORATE RELATIONSHIP BETWEEN VENTURES AND NGTL

6.1 Views of the Applicant

Ventures acknowledged that it is a wholly-owned subsidiary of NGTL and that, as a consequence, there may be an issue – or the perception of an issue – regarding the “proper cost allocation and appropriate codes of conduct between the utility business operating under traditional regulation and the non-utility business operating in a competitive environment”. Indeed, the proposed facilities fall into the latter category and Ventures stressed that the costs and business risks that would be incurred to build and operate the pipeline lateral would not be borne by NGTL’s customers through that company’s cost-of-service toll structure. The detailed mechanics of separating the activities of the two companies is expected to be an evolutionary process. However, Ventures has negotiated OS contracts – as an arm’s length – with NGTL to compensate NGTL for technical advice during construction of the pipeline and for its ongoing operating costs.

6.2 Views of Clan Duncan

In closing argument, Clan Duncan said that, as a pipeline competitor, its main concern centered on Ventures’ relationship with NGTL and the possibility that, in the absence of a strict arm’s length relationship, NGTL could be used as a financial backstop for Ventures’ activities. This would put Ventures at an unwarranted competitive advantage vis-à-vis other pipeline operators because, with its cost-of-service structure, NGTL’s customers would essentially be underwriting Ventures’ business risk. However, Clan Duncan also noted that its issue was primarily with NGTL rather than with Ventures. Further, so long as NGTL would be willing to conclude OS contracts with other pipeline operators, containing similar terms and conditions to those negotiated with Ventures, Clan Duncan would not be opposed to the current application. Clan Duncan urged the Board to consider whether or not there is a sufficient degree of separation between Ventures and NGTL in terms of costs, revenues, risk, and liability such that Ventures would be on the same footing as any other competitive pipeline company. If the Board cannot satisfy itself that Ventures and NGTL operate as separate corporate entities, then the project should not be approved.

6.3 Views of the Board

The Board acknowledges that NGTL expenditures are scrutinized in detail under a separate process. Costs incurred by Ventures, similar to other NGTL subsidiaries, will not be allowed to be borne by NGTL customers.

For the time being, the Board accepts Ventures’ evidence that it has taken reasonable steps to ensure that it is not unduly benefiting from its relationship with NGTL. Certainly, the Board expects that the terms and conditions of OS contracts negotiated between NGTL and Ventures would be made available to others. As well, the Board agrees that other measures that might be prudent to effect an arm’s length relations will likely evolve over time.

7 DECISION

Having regard for the evidence, the Board approved Application No. 1026918 in Decision 98-20.

Dated at Calgary, Alberta, on 4 June 1999.

ALBERTA ENERGY AND UTILITIES BOARD

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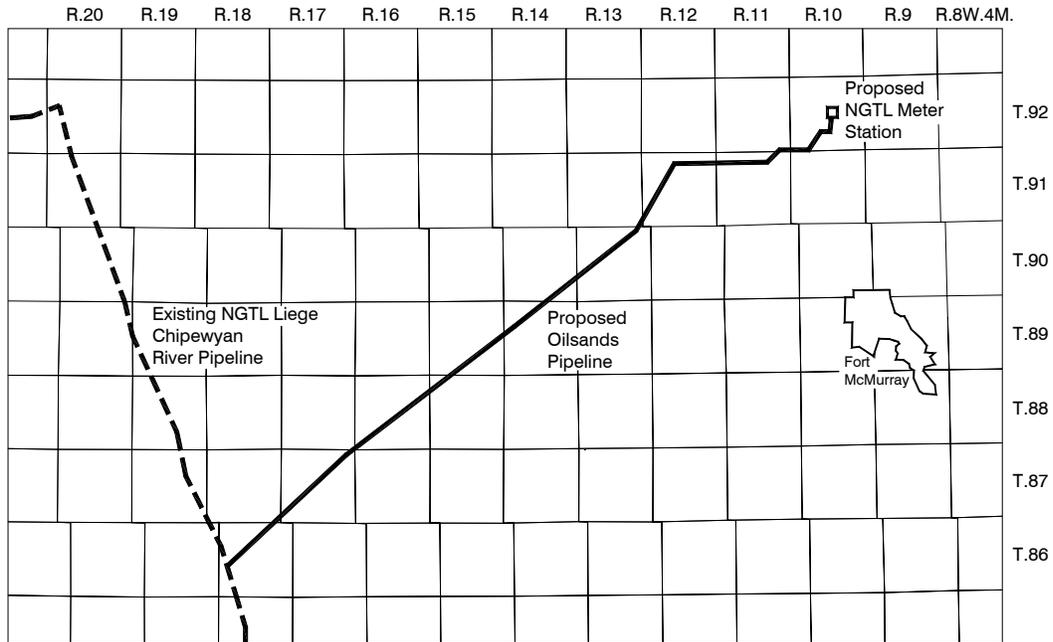
J. D. Dilay, P.Eng.
Board Member

<Original signed by>

T. McGee
Board Member

<Original signed by>

F. Rahnama, Ph.D.
Acting Board Member



Nova Pipeline Ventures Ltd.
Application No. 1026917
Wood Buffalo Lake to Fort McMurray Area

Decision 98-20A

ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

**NOVA PIPELINE VENTURES LTD.
APPLICATION TO CONSTRUCT AND OPERATE
A NATURAL GAS PIPELINE
WOOD BUFFALO LAKE TO FORT MCMURRAY AREA**

**Decision 98-20
Application No. 1026917**

1 APPLICATION AND HEARING

NOVA Pipeline Ventures Ltd. (Ventures) applied to the Alberta Energy and Utilities Board (the Board), pursuant to Part 4 of the Pipeline Act, for a permit to construct and operate a 110-kilometre, 610-millimetre outside diameter pipeline for the purpose of transporting natural gas from an interconnection with the existing NOVA Gas Transmission Ltd. (NGTL) pipeline system at Legal Subdivision 13, Section 18, Township 86, Range 18, West of the 4th Meridian, to an NGTL meter station proposed to be located at Lsd 16-15-92-10 W4M. The purpose of the pipeline would be to transport gas from the NGTL system to the facilities of Suncor Energy Inc. (Suncor) for its needs and other future needs in the area.

Simmons Group Inc. (Simmons) and Clan Duncan Resources (Clan Duncan) objected to the application. Accordingly, the Board directed that, pursuant to section 29 of the Energy Resources Conservation Act, a public hearing be held to consider the application.

The public hearing of the application was held in Calgary, Alberta on 13 and 17 November 1998, before Board Members J. D. Dilay, P.Eng., T. McGee, and Acting Board Member F. Rahnama, Ph.D.

In its evidence supporting Ventures application, Suncor stated that the Ventures pipeline represents a key component to its oil sands plant operations, for both current and future needs, and stressed the importance of the Board rendering its decision in a time-frame which will enable construction to proceed this winter toward a 1 April 1999 on-stream date.

At the hearing, Simmons withdrew its objection and Clan Duncan stated that, even though it considers itself a potential competitor to Ventures, it did not object to the application, should the Board be satisfied on the evidence that Ventures and NGTL are truly separate, arms-length entities.

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2 DECISION

Having carefully considered all the evidence, the Board is prepared to approve Venture's Application No. 1026917 and will issue the required approval. Having regard for the construction windows imposed by environmental constraints to mitigate adverse effects on caribou and moose habitats and the needs of Suncor, the Board is issuing this brief report and will issue a detailed report giving the reasons for its decision in due course.

Dated at Calgary, Alberta, on 23 November 1998.

ALBERTA ENERGY AND UTILITIES BOARD

J. D. Dilay, P.Eng.
Board Member

<Original signed by>

T. McGee
Board Member

<Original signed by>

F. Rahnama, Ph.D.
Acting Board Member