

ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

IMPERIAL OIL RESOURCES LIMITED APPLICATION TO CONSTRUCT AND OPERATE THE THICKSILVER PIPELINE PROJECT A BLENDED BITUMEN PIPELINE AND ASSOCIATED SURFACE FACILITIES COLD LAKE TO HARDISTY

**Decision 98-21
Application No. 1013709**

1 INTRODUCTION

1.1 Application

On 14 November 1997 Imperial Oil Resources Limited (Imperial), 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 approximately 250 kilometres (km) of a 914-millimetre (mm) outside diameter (OD) pipeline for the purpose of transporting blended bitumen from Imperial's existing bitumen production facilities located at legal subdivision (Lsd) 8, Section 5, Township 65, Range 3, West of the 4th Meridian, to an existing terminal facility at Lsd 9-19-42-9 W4M. Imperial also proposed to construct, in the same right-of-way, a 324 mm OD pipeline to transport hydrocarbon liquids, from Lsd 9-19-42-9 W4M to Lsd 8-5-65 W4M. Imperial further proposed to construct and operate a 22 km lateral comprised of 323 mm OD and 457 mm OD pipelines to transport crude oil from Lsd 6-8-66-5 W4M to Lsd 8-5-65-3 W4M. This lateral would provide access to the main pipeline from the Primrose and Wolf Lake production sites of Amoco Canada Petroleum Co. Ltd. (Amoco).

Associated with the proposed pipeline, Imperial proposed to construct related surface facilities which include two 15 900 cubic metres (m³) tanks and a 2316 kilowatt pump station at the existing facility in Lsd 8-5-65-3 W4M. (The proposed main line, lateral, and related facilities are jointly referred to as the ThickSilver Project).

The attached map illustrates the location of the proposed ThickSilver Project. Any reference to the views of Imperial in this decision report will generally reflect the position of the three proponents of the ThickSilver Project (the ThickSilver Proponents) being Imperial, Amoco, and Koch Oil Co. Ltd. (Koch).

1.2 Intervention

In response to a public Notice for Objection issued by the Board, several parties registered their objection to Imperial's application (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. Those interveners registered at the hearing are listed in Section 1.3. Alberta Energy Company Limited (AEC) was the only intervener to enter evidence at the hearing.

1.3 Hearing

The Application was considered at a public hearing in Calgary, Alberta on 26 and 27 May 1998 before Board Members B. T. McManus, Q.C., G. J. Miller, and F. J. Mink, P.Eng.

Those who appeared at the hearing are listed in the following table.

THOSE WHO APPEARED AT THE HEARING

Principals and Representatives (Abbreviations Used in Report)

Imperial Oil Resources Limited (Imperial)
H. R. Ward

Alberta Energy Company Limited (AEC)
L. G. Keough

Cold Lake First Nations
L. Martial

Alberta Energy and Utilities Board staff
B. Heggie, Board Counsel
P. V. Derbyshire
J. G. Bell
B. Riley
K. Johnston

Witnesses

D. D. Armstrong
R. F. Sendall, P.Eng,
D. B. Livesey
I. C. Walker
E. J. Hoffman
G. W. Cook
D. W. Hepfner
A. J. Kennedy
K. J. Bahadur

L. D. Draper
T. M. Zboya

A representative of the Cold Lake First Nations was in attendance solely to monitor proceedings. Alice MacLeod, Crown of the Tribes of Aboriginal First Nations Peoples, and Gibson Petroleum Company Limited filed submissions, but did not attend the hearing. Dean Rogan, landowner of the W2 of Section 32-48-6 W4M, filed an intervention but did not attend the hearing.

2 ISSUES

In its review of pipeline applications the Board considers various matters which, among other things, include social, economic and environmental issues; public safety and risk considerations; compliance with various technical standard requirements concerning construction, operation, and maintenance practices; and pipeline routing and landowner/occupant concerns.

The Board notes that on 17 November 1997, Imperial filed a Conservation and Reclamation Application with Alberta Environmental Protection (AEP) and has received positive feedback with a pending approval dependent on the decision of the Board. The Board accepts Imperial's confirmation that there are no outstanding technical issues and that it has obtained all necessary rights-of-way for the construction of the pipeline, other than those to be presented to the Alberta Surface Rights Board with respect to compensation issues. Accordingly, the Board considers the outstanding issues respecting the Application to be:

- C the need for the proposed pipeline, and
- C the potential for undue pipeline proliferation.

3 NEED FOR THE PROPOSED PIPELINE

3.1 Views of Imperial

Imperial stated that the need for the ThickSilver Project developed as a result of the future production of Imperial, Amoco, and Koch in the Cold Lake area. These parties had sufficient reserves to support the project and the financial strength and technological expertise required to complete further development of the region. The ThickSilver Project was the only option offering sufficient capacity to meet anticipated growth in production. Imperial believed that the existing AEC Cold Lake Pipeline (the CLPL) which transported Imperial volumes to Edmonton would be unable, even with future expansion, to transport the volumes committed to the ThickSilver Project.

Imperial stated that the ThickSilver Project was needed to transport heavy crude oil and crude bitumen from the Cold Lake region to crude oil terminal facilities at Hardisty. Imperial noted that, *"the development of the oil sands is both capital and operating cost intensive as compared to conventional oil, and yet the product attracts a lower market price. This is a cost margin business and every avenue to reduce the cost structure must be employed, including the cost to access markets"*. (transcript, page 22)

It was Imperial's belief that Hardisty was the preferred destination for its production, as the existing terminal provides access to the PADD IV market in the United States. In order to reach Hardisty using the existing infrastructure, Imperial had to have its production shipped to Edmonton on the CLPL, then to Hardisty on the Interprovincial Pipe Line Inc. (IPL) pipeline system. Producers required additional pipeline facilities in the area to assure security and

flexibility of capacity and lower transportation costs. Imperial stated that a direct route from Cold Lake to Hardisty would result in lower tolls, as it would avoid payment of the IPL toll.

Imperial suggested that the ThickSilver Project would provide cheaper transportation costs, and this was in the public interest as it would result in enhanced producer netbacks and higher royalties to the Crown.

Imperial confirmed that, together with Amoco and Koch, it produced approximately 70 per cent of all heavy oil in Alberta and that the ThickSilver Proponents were three of the largest heavy oil producers and shippers in Canada. They were committed to the future development of the Cold Lake region and their involvement with the ThickSilver Project, to be built at their own risk, was proof of this commitment. Imperial suggested that the ThickSilver Project was the most economic, orderly, and efficient way to develop the region further.

3.2 Views of AEC

AEC questioned Imperial's claim that the CLPL suffered from capacity limitations in its ability to handle Imperial's forecasted incremental volumes. In addition, AEC disagreed with Imperial's assessment that the existing CLPL could not be expanded to offer sufficient capacity to meet the needs of the ThickSilver Proponents. Furthermore, AEC questioned the accuracy of the heavy oil/bitumen forecast. AEC claimed the forecast might be optimistic, considering the applicable price environment, and inclusion of Koch heavy oil volumes as a source of production might be erroneous, as there was evidence that Koch had committed these volumes to other projects. AEC believed that the ThickSilver Project did not offer increased flexibility since use of the pipeline would eliminate Edmonton, West Coast, and Billings as markets. To utilize existing infrastructure, the IPL line would have to be reversed from Hardisty to access these markets through Edmonton.

3.3 Views of the Board

Although the timing related to the growth of future production of the ThickSilver Proponents in the Cold Lake area is somewhat uncertain, the extent of the oil sands reserves in the Cold Lake region is reasonably well known. The Board is confident that development of the resource in the region will proceed at some time in the future. The Board therefore accepts the argument that there is a need for additional pipeline capacity to service future incremental production.

The Board recognizes Imperial's substantial commitment to the Cold Lake region, making it particularly important that its transportation needs are addressed in a preferred fashion. This is especially so given the unique economics of crude bitumen recovery. Imperial submitted that the direct route to Hardisty would facilitate access to the preferred markets, would provide capacity flexibility, and would ultimately provide lower transportation costs and enhanced producer net backs. This would produce higher royalties to the Crown, an advantage to all Albertans. The

Board notes the ThickSilver Project is to be developed at the sole risk of the ThickSilver Proponents. In the absence of any overriding public concerns, and given the reasons advanced by the applicant, the Board is prepared to accept that need for the pipeline has been established.

4 POTENTIAL FOR UNDUE PIPELINE PROLIFERATION

4.1 Views of Imperial

Imperial stated that it explored options other than proceeding with the ThickSilver Project. However, the ThickSilver Proponents considered they were cooperating to develop a project to transport their production to market in the most economic and efficient means possible. Imperial was of the view that the Board should not mandate it to use an inefficient pipeline which might hinder its competitiveness.

Imperial submitted that an expansion of the existing CLPL would not provide sufficient capacity. Even if it did, there was no assurance that tolls would be competitive to the ThickSilver Project. Imperial reiterated that it was both the existence of lower tolls and flexibility that would enable it to be competitive.

Imperial also argued that there would be no economic harm to AEC. In the shorter term, Imperial confirmed that it would continue to honour its commitments to the CLPL until arrangements expire in 2005. In addressing longer-term impacts, Imperial claimed that if AEC engaged in competitive practices, it could attract future volumes to ship on a depreciated pipeline. Imperial was of the view that AEC's intervention was based solely on preventing competition in order to protect its commercial interests.

4.2 Views of AEC

AEC was of the belief that the ThickSilver Project would infringe the EUB proliferation guidelines. AEC argued that construction of the ThickSilver Project would remove virtually all of AEC's shipments from the line, no matter what toll was charged. After making a significant investment in its own pipeline, it was unlikely that the ThickSilver Proponents would seriously consider the use of the CLPL. This could potentially render the CLPL a stranded asset.

4.3 Views of the Board

Notwithstanding that need for the ThickSilver Project has been established, the Board must consider the need in light of the submission of AEC regarding potential duplication of pipeline facilities and the alleged infringement of the Board's proliferation guidelines. These guidelines are summarized in Informational Letter 91-1 and in Volume 2 of Guide 56, the Board's Energy Development Application Guide and Schedules, as issued in October 1997.

These guidelines have been considered in a number of recent Board decisions, including

Decision 98-12 respecting an application by Federated Pipe Lines Ltd., wherein the Board stated:

“The proliferation policy was initially put in place to deal with situations where the public interest was potentially at risk because of adverse effects to people or the environment from the construction and operation of surface facilities such as gas processing plants. Such developments generated concerns on the part of the public regarding aesthetics and environmental quality. Those concerns led to an increased regulatory focus on unwarranted proliferation”. (page 6)

The Board further noted in the decision that while pipelines are not exempt from the proliferation guidelines, they are generally less likely than surface facilities to trigger the type of proliferation the Board is most concerned to avoid. That view is consistent with this Application in that it does not deal with any significant environmental or social tradeoffs other than some land use impacts resulting from the new pipeline. As previously noted, all environmental, landowner, and public consultation requirements of the Board and AEP have been met and members of the public have not expressed opposition.

The Board is mindful that the proliferation policy is underpinned to some extent by the mandate to ensure economic, orderly, and efficient development of facilities in the public interest and, accordingly, consideration must be had to the degree and nature of duplication represented by a facilities application. This consideration is tempered, however, by the notion that absent adverse impacts in terms of the environment, resource conservation, or public health and safety, the duplication in question must be excessive before the Board would accept arguments related solely to proliferation to stifle normal business decisions made with marketplace support. This is particularly so where the duplication results from a proposal that enhances competition and addresses market power. In the final analysis, what constitutes undue or excessive duplication is dependent on the individual circumstances of each case.

The parties have quite different views as to the degree and nature of duplication involved if the Application is approved. While AEC considers that the ThickSilver Project will render the CLPL redundant in 2005, the Board tends to consider that scenario unlikely.

The Board notes that Imperial and Amoco have an agreement with AEC to transport a certain minimum volume of crude bitumen on the CLPL for the next seven years. Imperial and Amoco have stated that they have no intention of violating this contract, and that at the end of the contract AEC will have fully depreciated its capital investment. The Board is confident that future development in the region will continue. Under these circumstances, the Board considers that AEC should be in a position to offer a competitive toll so as to attract future volumes. While development of the ThickSilver Project may result in some duplication of facilities in the short term, it is uncertain that there may be proliferation in the longer term. In fact, the Board believes competitive options to transport bitumen from the Cold Lake area may enhance the long term

resource development of the region. Given the foregoing circumstances, the Board does not consider that the ThickSilver Project represents undue proliferation.

The Board notes that in terms of the consultation process, Imperial stated that it had entered into negotiations with all existing and approved pipeline operators in the region, including AEC. Through these negotiations, Imperial determined that no other option would provide it with sufficient capacity or service flexibility to meet its long-term needs. The Board is satisfied that Imperial has followed the spirit of the consultation process as outlined in the proliferation guidelines and that construction of the ThickSilver Project is in the public interest.

5 DECISION

Having carefully considered all of the evidence, the Board is prepared to approve Application No. 1013709, and will issue the required approval forthwith.

Dated at Calgary, Alberta on 26 November 1998.

ALBERTA ENERGY AND UTILITIES BOARD

<Original signed by>

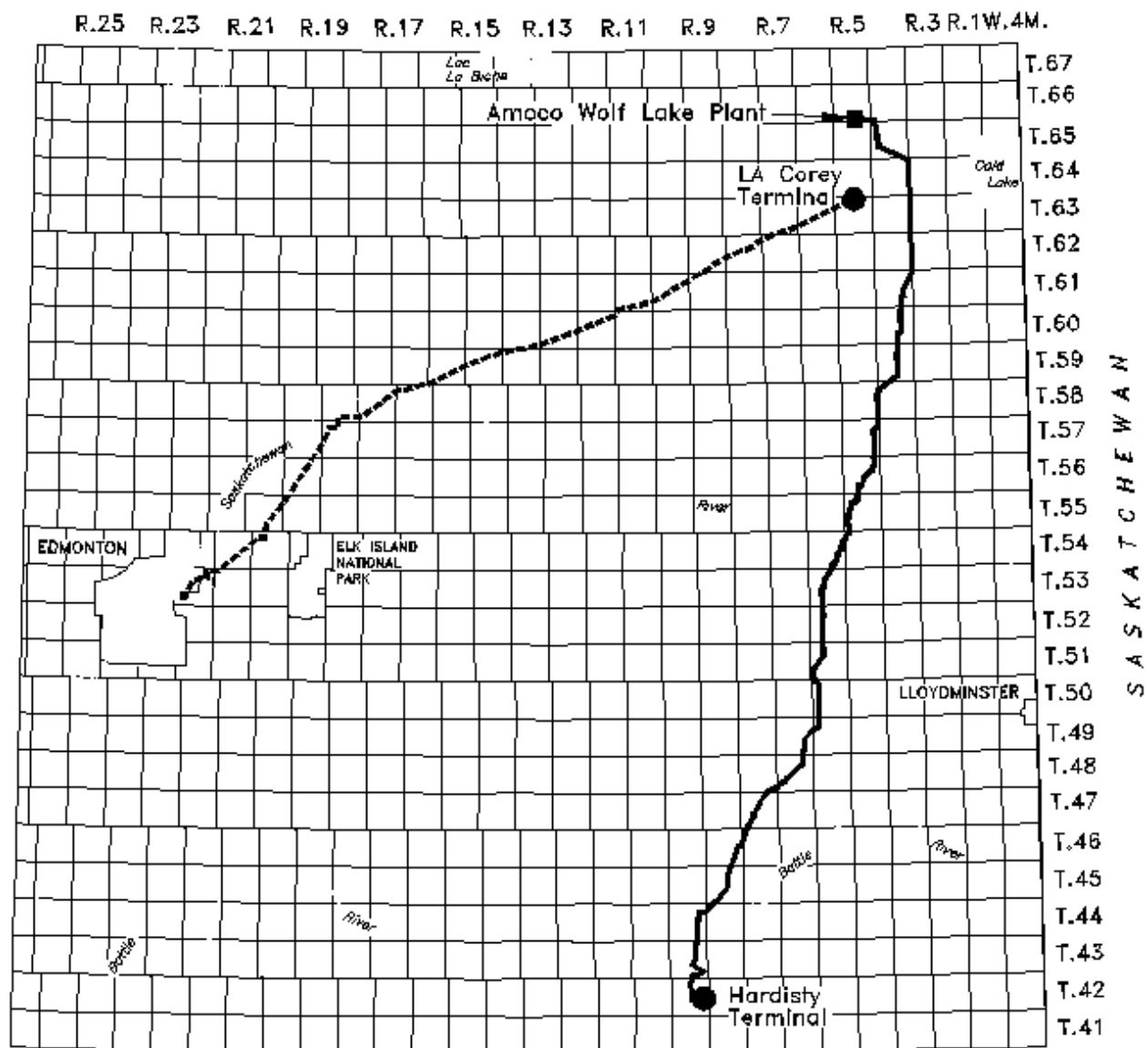
B. T. McManus, Q.C.
Presiding Member

<Original signed by>

G. J. Miller
Board Member

<Original signed by>

F. J. Mink, P.Eng.
Board Member



Legend

- Proposed ThickSilver Pipeline project
- - - - -** Existing AEC Cold Lake Pipeline

ThickSilver Pipeline Project
 Application No. 1013709
 Imperial Oil Resources Limited

Decision 98-21

