More Accountability and Transparency Required of Northern Gateway

Robyn Allan
December 4, 2013

The Energy section in the December 4, 2013 issue of the Vancouver Sun says it is a "joint venture with Enbridge". It includes what appears as an article about Enbridge VP Janet Holder. The article has not been identified as an infomercial—so if Enbridge paid for the content, it should be more clearly identified as such. Whether it is journalism or advertising, the article is peppered with inaccurate facts and grandiose claims.

The safety features Ms. Holder cites were submitted to the National Energy Board (NEB) Panel during the hearings. The BC government considered these features. The province told the Panel they did not pass muster.

Ms. Holder says the economic value of the project has gone unchallenged. Not true. Numerous intervenors at the NEB hearings, including the BC government, challenged the validity of Enbridge's claims in written evidence and follow-up argument.

Ms. Holder says Northern Gateway would "end a continental bottleneck that has resulted in a substantial discount for Canadian oil compared with international prices…" She leaves out that reduced pipeline capacity is in part due to pressure restrictions placed on companies because regulators question the safety of their pipelines.

Enbridge's Line 6B still operates under regulated pressure restrictions since restarting three months after the 2010 Kalamazoo spill. Exxon Mobil's Pegasus line has been shut since its spill last March. Kinder Morgan's Trans Mountain is operating at 80 percent because of minor spills last June. Pipeline integrity problems have led to a reduction in throughput capacity almost half the size of Northern Gateway.

Ms. Holder says "The Canadian Chamber of Commerce recently reported that because we do not reach international markets for oil and gas, other than the United States, we are losing $50-million a day."

The Chamber's report is a recycled version of one they put out in February 2013 based on figures released in early 2012. The Chamber undertook no original research. They cite four sources: a newspaper article in March 2012 quoting CIBC analyst Andrew Potter, a speech by Natural Resources Minister Joe Oliver in December 2012, a Canadian Energy Research Institute (CERI) study from July 2012 and a Canada West Foundation report released last February.

Mr. Oliver's office confirmed that he relied on CIBC for his figures. The Canada West Foundation relied on CERI. So despite the Chamber's claim of four sources, at best, there are two.

CERI is clear there is no current loss to the Canadian economy because of a lack of pipeline capacity. Canada West should not have used their study to suggest there was.

We are left with CIBC's claim. Mr. Potter—who is now an executive for oil sands producer Cenovus—elected to choose differentials from one day in February 2012 when they were at their widest and extrapolate them as if they lasted a year. For the difference between Synthetic Crude Oil (SCO), a light Alberta crude close in quality to the North American benchmark West Texas Intermediate (WTI), the differential was $23.04. A week later it was $1.00.

If Mr. Potter had selected the narrowest differential instead of the widest, there would have been no SCO discount story to tell. What a difference a day makes.

When it comes to WCS—a bitumen heavy oil blend—and WTI, there is an historical quality gap of about $20 per barrel. Bitumen is dirty oil and needs to be upgraded before refining. WTI is a light, high quality crude. It costs less to process. In 2012 the differentials were well within their historical, and expected, quality range.

The Office of the Parliamentary Budget Officer told the Standing Committee on Finance a few weeks ago that "eliminating the discount paid for WCS relative to WTI is not realistic, as there is a significant difference in the quality of these crude oil benchmarks that is reflected in the price difference."

More important than the Chamber's inaccurate depiction of the discount narrative is the contradiction between what Enbridge tells the regulator and what the company tells the public. Ms. Holder's boss, Enbridge CEO Al Monaco, floated the differential loss argument in a speech to the Toronto Board of Trade in June 2012.

A month later Enbridge submitted evidence to the Panel in support of Northern Gateway—the pipeline Mr. Monaco said needed to be built to remove differentials of $20 to $30 a barrel. There was no mention of Mr. Monaco's discount concern in the more than 200 hundred pages filed. The differentials in Enbridge's evidence reflect natural discounts related to quality and Northern Gateway plays no role in eliminating them.

Robyn Allan is an economist and was an expert witness at the National Energy Board Hearings on Northern Gateway. Her report "Bitumen's Deep Discount Deception and Canada's Pipeline Mania can be found at www.robynallan.com.