

ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

**NOVAGAS CLEARINGHOUSE LTD.
APPLICATIONS TO CONSTRUCT AND OPERATE
A FRACTIONATION FACILITY
AND HIGH AND LOW VAPOUR PRESSURE PIPELINES
REDWATER TO FORT
SASKATCHEWAN AREA**

**Decision 97-6
Applications No. 1000947 and 1002782**

1 INTRODUCTION

1.1 Background

In December 1995, Peace Pipe Line Ltd. (Peace) applied to the Alberta Energy and Utilities Board (Board) for approval to construct a low vapour pressure products (LVP)/crude oil pipeline from LaGlace to Valleyview and related facilities. In April/May 1996, Federated Pipe Lines Ltd. (Federated), and Novagas Clearinghouse Ltd. (NCL) applied to the EUB for approval to construct and operate high vapour pressure (HVP) pipelines and related facilities in northwestern Alberta. The applications were considered at a public hearing and approved in Board Decision D 96-13.

NCL's HVP gathering pipeline application approved in Decision D 96-13 was related to the subject NCL fractionation facility and pipeline application.

1.2 Applications

In Application No. 1000947, NCL applied to construct and operate a liquid fractionation facility in the Redwater area at Legal Subdivision 9, Section 1, Township 56, Range 22, West of the 4th Meridian. The facility would be designed to reprocess 11 300 cubic metres per day (m^3/d) of ethane plus (C_2+) mix from which 3974.4 m^3/d of ethane, 3038.4 m^3/d of propane, 1792.8 m^3/d of butane and 1476.0 m^3/d of pentanes plus would be recovered, and 0.99 tonnes per day of sulphur equivalent would be emitted.

In Application No. 1002782, NCL applied for a permit/licence to construct and operate five pipelines of approximately 10 kilometres with a maximum 273.1-millimetre outside diameter for the purpose of transporting HVP/LVP products from the proposed fractionator facility to existing pipelines and associated facilities in the Fort Saskatchewan area at LSD 11-14-55-22 W4M, and LSD 3-14-55-22 W4M. NCL proposed to construct the five pipelines in a common ditch.

1.3 Hearing

The applications were considered by the Board at a public hearing in Calgary, Alberta on 18 March 1997, before J. D. Dilay, P.Eng. (Presiding Member), J. P. Prince, Ph.D., (Board Member), and N. W. MacDonald, P.Eng., (Board Member).

Those who appeared at the hearing are listed in Table 1.

TABLE 1 THOSE WHO APPEARED AT THE HEARING**Principals and Representatives
(Abbreviations Used in Report)****Witnesses**

Novagas Clearinghouse Ltd. (NCL)

A. S. Hollingworth

D. N. Wood

R. J. Finlay, P.Eng.

T. B. Gracel

B. Patterson

D. M. Chappell, P.Eng.

B. D. Gray, P.Eng.

K. C. Coxon, P.Eng.

Gulf Canada Resources Limited (Gulf)

B. van Schaayk

Chevron Canada Resources (Chevron)

K. F. Miller

Dow Canada Chemical Inc (Dow)

K. F. Miller

Imperial Oil Limited (Imperial)

D. G. Davies

Kinetic Resources (Kinetic)

D. G. Davies

V. M. Anez

Alberta Energy and Utilities Board staff

T. Donnelly

S. C. Lee, P.Eng.

P. K. Ferensowicz

L. Philp

D. D. Fraser

Gulf, Chevron, and Dow did not present any evidence, conduct cross-examination of the applicant, or present closing arguments. Imperial and Kinetic conducted cross-examination and presented closing argument but did not present evidence at the hearing. Mr. A.M. Dzurny, a resident of the Fort Saskatchewan area, filed an intervention, but did not attend the hearing. Mr. V. Anez, who resides in Calgary, also filed an intervention. Mr. Anez conducted cross-examination but did not present evidence or closing argument.

The following parties filed interventions, but did not participate in the hearing

- Peace
- Federated
- Alberta Natural Gas Company Ltd.
- Confederation of Regions Political Party, Federal
- Petro-Canada Oil & Gas

2 ISSUES

The Board considers the issues respecting the applications to be

- need
- commercial arrangements
- technical and environmental matters

3 NEED

3.1 Views of the Applicant

NCL said that commercial arrangements at Taylor, British Columbia, including dedicated and forecast volumes on its recently-approved HVP gathering system and at the existing NCL Redwater storage site, created the need for additional fractionation capacity within Alberta. NCL said that the existing fractionation facilities in the Fort Saskatchewan area, including the recently-approved Chevron expansion of the Chevron Fort Saskatchewan facility, would not be sufficient to handle the volumes coming into the Fort Saskatchewan area as forecast by NCL. NCL's proposed fractionator would also provide de-ethanization for incremental ethane volumes in the Fort Saskatchewan area, which could not be accommodated by the existing fractionation infrastructure.

Furthermore, NCL said that the applied-for interconnector pipelines would provide its customers with access to downstream markets for specification products. NCL stated that it was still in the process of finalizing commercial and technical arrangements with other pipeline operators in the Fort Saskatchewan area regarding possible pipeline connections downstream of the proposed Redwater fractionator. NCL stated that its integrated liquids project would provide producers with access to a liquid system and enhance producer returns.

3.2 Views of the Interveners

None of the interveners challenged the need for NCL's proposed fractionator and interconnector pipelines.

3.3 Views of the Board

Having heard the evidence regarding the volumes of product both dedicated and forecast to be brought into the Fort Saskatchewan area, the Board is satisfied that there is need for additional fractionation capacity as well as for the interconnector pipelines.

4 COMMERCIAL ARRANGEMENTS

4.1 Views of the Interveners

Imperial and Kinetic filed interventions opposing the NCL applications. At the hearing, neither Imperial nor Kinetic presented evidence. However, Imperial and Kinetic raised various issues concerning the NCL applications during cross-examination and argument.

Imperial and Kinetic questioned whether producers should be able to retain their rights to ethane and other products, and make sales to those buyers that will maximize their netbacks. They also questioned whether requiring NCL to operate its facilities on a fair, transparent and non-discriminatory basis would be the best way to ensure that the public interest is served. Imperial and Kinetic both argued that the Board should have as its objective increasing the options to producers, not limiting them.

Both Kinetic and Imperial questioned NCL's intent to operate the proposed fractionator facility and interconnector pipelines on an open access basis. Imperial and Kinetic raised concerns about the possibility of not being able to strike commercial arrangements for connections off the approved NCL gathering system upstream of the proposed fractionator. Imperial and Kinetic also raised concerns regarding fees for fractionation, storage and facility usage such as terminalling, manifolding, as well as an interconnecting fee for products transported downstream from the proposed fractionator. Imperial and Kinetic questioned NCL on whether or not identical tolls would be charged to all shippers on the approved NCL gathering system for the same type of services requested, including NCL itself as a shipper. Both Kinetic and Imperial suggested that NCL's approved gathering system as well as the proposed interconnector pipelines be operated on a common carrier basis, and that NCL's proposed fractionator be operated as a common processor facility.

Furthermore, Imperial and Kinetic questioned if it is in the public interest to authorize facilities that can and will be used by NCL to obtain ethane supply for one of its affiliates. Imperial and Kinetic implied that NCL will be not only the operator of a liquids transportation and processing system in competition with other liquids transportation and processing systems, but also a shipper, and more importantly, a facilitator for the purchase of ethane supply for NOVA Chemicals. Imperial and Kinetic stated that NCL has an incentive to operate and charge for its facilities so as to acquire ethane supply for its affiliate and that this could be accomplished by charging a terminalling fee at the Redwater facility which would discourage or perhaps even prevent shippers from taking the C₂₊ to other fractionation facilities. Further, NCL could charge a fee on its downstream ethane pipeline that could encourage or perhaps even compel third parties to sell their ethane to NCL. Imperial and Kinetic argued that it would be in the public interest for NCL

to construct and operate a competitive liquids system, but on a common carrier basis, posting tolls for service, and ensuring that all shippers, including NCL, pay the same fee for the same service.

4.2 Views of the Applicant

NCL stated that the application for the fractionator plant and the associated pipelines are justified, are in the public interest, and will allow a significant new player to enter the natural gas liquids business. NCL indicated that the best regulator is market forces and that it is prepared to let market forces dictate what will happen. NCL stated that the Board should dismiss Imperial's and Kinetic's concerns because they are seeking an arrangement that is not required of other facilities in this province, facilities with which NCL will be obliged to compete. It appeared to NCL that Imperial and Kinetic did not seem prepared to concede that competitive forces are going to drive what NCL can and cannot do on its system. There was also reference made by NCL to the complaint mechanisms, such as common carrier applications, that can be made under existing Alberta legislation. In NCL's view, this is sufficient recourse for Imperial and Kinetic to resolve their concerns.

NCL acknowledged that it was in a competitive environment, whereby NCL would be providing similar types of fractionation services and de-ethanization as current area operators. With regards to commercial arrangements for upstream connections off the approved NCL gathering system, NCL stated that other industry participants would still have the option of connecting upstream of its proposed fractionator. NCL further stated that it would not object to other parties interconnecting upstream of its proposed fractionator and transporting product to other operators should commercial arrangements not be reached for incoming products.

NCL stated that its charges for fractionation, storage facility, terminalling, manifold, and interconnection were all dependent on the types of services requested by its customers and would be arrived at in a negotiated commercial arrangement. Because of the competitive environment and nature of the business, NCL was not prepared to disclose or negotiate specific fees with Imperial and Kinetic at the hearing. NCL stated that such issues are best left for private commercial negotiations between interested parties.

4.3 Views of the Board

The Board acknowledges the concerns of Imperial and Kinetic regarding potential commercial arrangements for the use of NCL's proposed facilities. However, at this time, there have been no negotiations among the parties and the interveners did not identify public interest issues that might warrant intervention by the Board.

5 TECHNICAL AND ENVIRONMENTAL CONSIDERATIONS

5.1 Views of the Intervenors

Mr. Anez questioned NCL on matters related to the proposed sulphur dioxide emissions from the fractionator. Mr. Anez did not suggest the application should be denied.

5.2 Views of the Applicant

NCL filed detailed applications which described the technical, social, economic, and environmental aspects of its Redwater facility and pipeline projects. In accordance with Part 2, Division 2 of the Environmental Protection and Enhancement Act (EPEA), NCL applied to Alberta Environmental Protection (AEP) for approval of its proposed fractionation facility, and pursuant to Section 70 of EPEA, NCL advertised the application. NCL received AEP approval of its fractionator in AEP's letter dated 16 September 1996. NCL filed a Conservation and Reclamation (C&R) report with AEP for its proposed Redwater pipelines, and noted that no statements of concern were filed in response to the C&R advertisement. NCL was satisfied that its applications were technically complete and met the Board's regulatory requirements. NCL noted that none of the interveners raised any overriding social, economic, or environmental public-interest issue which should result in any of the applications being denied.

5.3 Views of the Board

The Board is satisfied that the proposed pipelines are designed to meet the material and construction specifications for the proposed service. The Board notes that:

- NCL has received approval from AEP for its proposed fractionator facility in Redwater.
- the required C&R report associated with the pipeline proposal has been filed with AEP, and AEP did not file any submission with the Board or attend the hearing to raise any specific concern.
- no submissions were filed in response to the AEP C&R advertisement.
- no specific concern was raised by any intervener regarding public safety or risk issues, and there is an emergency response plan in place at the Redwater facility which will be updated by NCL prior to the start-up of the proposed facilities.
- no landowners or occupants objected to the proposed pipeline right-of-way or fractionator site.

While the Board notes that Mr. Dzurny did not attend the hearing, it acknowledges Mr. Dzurny's intervention regarding air quality issues and emission concerns. However, the Board is satisfied that the proposed facility will meet AEP's ambient air quality guidelines.

On the basis of the evidence, the Board is satisfied that NCL's applications are technically complete and meet the Board's regulatory requirements.

6 DECISION

The Board approves the applications and directs that the appropriate facility approval and pipeline permit/licence be issued.

DATED at Calgary, Alberta, on 15 May 1997.

ALBERTA ENERGY AND UTILITIES BOARD

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

J. P. Prince, Ph.D.
Board Member

N. W. MacDonald, P.Eng.*
Board Member

* N.W. Macdonald was not available for signing but concurs with the contents and the issuance of this report.