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Current and Future State of Oil and Gas Pipelines and Refining Capacity in Canada

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Canadian Transmission Pipelines: World Class Infrastructure

The Canadian Energy Pipeline Association (CEPA) represents Canada’s transmission pipeline companies. Our members transport over land 97% of Canada’s daily crude oil and natural gas production from producing regions to markets throughout Canada, the United States and overseas.

William Bernstein, in his hallmark text “The Birth of Plenty”, identified four pillars to the creation of wealth in the modern world:

- Property rights backed with an effective system of law
- The acceptance of scientific rationalism
- Effectively functioning capital markets
- Infrastructure to move energy, ideas and products around quickly and efficiently

Every wealthy nation in the world has an effective system of infrastructure, including roads, railways, pipelines, and communications towers over which the nation’s commerce moves. Infrastructure facilitates trade and, without it, the economy of a nation is seriously hampered.

Canada is fortunate in that we possess a highly developed efficient infrastructure in all key areas of our economy.

For the past 60 years, the Canadian pipeline industry has been building and operating an enormous network of energy highways reliably and safely.

Over 100,000 km of transmission pipelines crisscross our nation from east to west and north to south. Through sound engineering, balanced regulatory decisions and a firm commitment to safety, this vast network of energy highways has connected energy producing regions to consuming markets in such an efficient and cost effective manner that Canadians don’t think twice of using energy to perform daily mundane tasks and assume that light, power and heat will always be available at a flick of a switch.
Transmission pipelines are the safest ways of transporting large quantities of oil, refined products and natural gas over long distances. Canadian transmission pipelines are among the safest if not the safest network of pipelines in the world.

Ongoing technological improvements, comprehensive pipeline integrity management systems and emergency response procedures and sharing of best practices are all contributing to this outstanding record.
A reliable, safe and cost effective energy system, of which pipelines are a critical component, not only provides Canadians with a comfortable lifestyle, it is also a cornerstone to the prosperity of our nation.

• For the past five years, the annual value of energy transported over NEB-regulated pipelines to both Canadians and export customers has exceeded $100 billion, reaching $127 billion in 2008 when oil prices were at a peak. To put that into context, that is the equivalent of over $3000.00 for every man, woman and child in Canada.

• The annual cost of transport on these pipelines has averaged less than $5 billion. Pipeline transportation is extremely efficient and provides great economic value added.

• Energy exports delivered by pipelines contribute approximately 1/5 of Canada’s total merchandise export revenues (22% in 2010).

The energy industry is a huge contributor to the Canadian economy and to the comfortable lifestyle most Canadians enjoy but it is only made possible by the existence of an efficient and adequate pipeline infrastructure.

An important feature of infrastructure is that it must be adequate, in the right place at the right time, and it must work. We all know the consequences of an inadequate road system, and the costs that result from congestion, lost time or cross-border bottlenecks. A computer network that is inadequate and repeatedly crashes can kill a business.
Leak Detection Tool

While the impact of a power outage is obvious to all citizens, there are less obvious costs associated with inadequate pipeline infrastructure. Currently, there is inadequate pipeline infrastructure to meet demands for Canadian oil in offshore markets. Canadian oil production is “trapped” in North America by a lack of infrastructure. This has created excess supply and reduced prices by $10 - $30 compared to the going world price of oil. Given that Canada exports 2 million barrels/day of crude oil, this means that such a differential costs Canada $20 - $50 million a day in export revenue! ($14.5 - $18.2 billion a year) This translates into lost tax revenues for governments across the country, fewer dollars for reinvestment in Canada, and lower returns to all shareholders including many pensioners.

The potential loss of domestic and export trade opportunities is a critical discussion to have in Canada. Global energy trade is high competitive, unpredictable and volatile.

Safety Exercise

Canada’s potential complacency in addressing this issue could lead to significant lost economic opportunities for the nation. The pipeline sector is working well under market conditions. To complement this, we need to establish a more deliberate and strategic policy framework that recognizes the interdependency between energy security, prosperity, environmental conservation and social well-being. Central to achieve this balance is an efficient regulatory system that focuses on predictable timelines, balanced fact-based decisions and trade opportunities.
If our nation’s approach to infrastructure is laissez faire, with a view of “if we build it they will come”, then our regulatory decision timelines and fiscal competitiveness will disadvantage the nation. We must go toe-to-toe with others, while also upholding fairness and responsibility in appropriate developments.

Conversely, adequate pipeline capacity, with some reserve built in, enables the industry to efficiently meet the needs of energy users. Adequate or modest excess capacity provides important flexibility in the market place. Elimination of bottlenecks and opening of options allows energy trade to happen more fluidly providing better pricing and energy security for consumers.

Prompt, effective and efficient regulatory decision making is critical in this context. Sometimes quicker project decisions are aided by improved land use planning or even pre-assessed infrastructure corridors. One avenue that has not been actively explored in Canada is the possibility of regional infrastructure evaluations with an eye to potential future options. For example, if there was a pressing policy concern about energy security in Atlantic Canada (and that is not our position, but this is used for illustration), governments could consider in advance a likely corridor for an oil pipeline from Montreal through to refineries in Saint John, New Brunswick. Having governments complete environmental assessments in advance of a potential future need would provide the possibility of faster deployment should infrastructure become necessary.

It is important to note that the pipeline sector provides transportation options to shippers who are looking to connect to various markets. The pipeline sector does not determine the need for these transportation options. In a market based approach that need is determined between the shipper and the downstream market.

Occasionally government policy will provide added impetus to market-based choices where far reaching national interests are clear.
Enbridge Line 9

For example, the original Line 9 was built in the 1970’s to mitigate the potential threat of the OPEC embargo and concerns about energy security in Eastern Canadian markets. Line 9 allowed safe and reliable Canadian crude to serve these markets. With the political threat from the Middle East receding in the following years, Line 9 was reversed in the late 1990’s as oil imports through eastern ports had become reliable and affordable. The market is once again signaling a change hence the proposal by Enbridge to reverse the flow and allow for Canadian crude to access Eastern Canadian markets. The Line 9 reversal is a perfect example of a pipeline company responding to new market conditions. Unfortunately, despite this existing infrastructure being below ground and essentially unchanged by flow direction, the NEB has decided that a hearing will be used to consider the application and that it will not take place until fall 2012, at least 15 months after the application was filed.

The Keystone XL and Northern Gateway projects are also undertakings that respond to emerging market conditions: one is to connect Canadian oil sands production directly to one of the largest refining complex in the world, i.e. The Gulf Coast, the other is to provide Canadian oil producers access to the ever growing Asian market.

Conclusion

Canada has built and operated a world class pipeline infrastructure that has provided affordable and reliable energy for many decades to Canadians.

Pipelines are the safest and most environmentally sound way to transport oil and gas products over land.

The Canadian pipeline sector is sophisticated, highly specialized and has a proven record to adapt to changing needs efficiently and in a safe and effective way.