



## LETTER DECISION

File OF-EI-Gas-GL-A792-2016-01 01  
18 October 2016

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Dear Mr. Davies, Ms. Skoropat, and Mr. Fisher:

**AltaGas LPG General Partner Inc. on behalf of AltaGas LPG Limited Partnership  
Application dated 11 February 2016 for a Licence to Export Propane pursuant to  
Section 117 of the *National Energy Board Act*  
National Energy Board Reasons for Decision**

On 11 February 2016, AltaGas LPG General Partner Inc. on behalf of AltaGas LPG Limited Partnership (AltaGas LPG) applied to the National Energy Board (NEB or Board) pursuant to section 117 of the *National Energy Board Act* (NEB Act) for a licence (Licence) to export propane (Application). AltaGas LPG seeks:

- a 25-year Licence, starting on the date of first export;
- including a 15% annual tolerance, a maximum annual export quantity of 2 669 391 cubic metres (m<sup>3</sup>) or 16,790,000 barrels<sup>1</sup>;
- a maximum term quantity of 66 734 775 m<sup>3</sup> (419,750,000 barrels) over the term of the licence<sup>2</sup>;

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<sup>1</sup> Applied-for quantity of 2 321 217 m<sup>3</sup> (14,600,000 barrels) plus the 15% annual tolerance.

<sup>2</sup> Applied-for quantity plus the 15% annual tolerance multiplied by the 25-year Licence term.

- the point of export shall be at the outlet of a marine export terminal located near Prince Rupert, British Columbia and from points along the Canada-United States (U.S.) border where railway crossings occur (specifically Coutts, Alberta; Kingsgate, British Columbia; Huntingdon, British Columbia; and White Rock, British Columbia).
- an early expiration clause where, unless otherwise authorized by the Board, the Licence will expire ten years from the date of Governor in Council approval of the issuance of the Licence if exports have not commenced on or before that date.

### **Summary of Public Notice, Comment Period and Information Requests**

On 28 March 2016, AltaGas LPG published a Notice of Application and Comment Period (Notice) for impacted persons in the *Globe and Mail* and on 26 March 2016 in *La Presse*. The Notice requested that any impacted person who wished to file submissions on the merits of the Application do so by 29 April 2016 and that AltaGas LPG respond by 9 May 2016.

The Board received a submission from the District of Port Edward on 6 April 2016. AltaGas LPG filed its response to the NEB on 5 May 2016 acknowledging the comments and concerns raised by the District of Port Edward.

The Board issued Information Request No. 1 and Information Request No. 2 to AltaGas LPG on 10 May 2016 and 10 August 2016, respectively, and AltaGas LPG filed its responses on 8 June 2016 and 31 August 2016, respectively.

### **Surplus Determination**

AltaGas LPG submitted that, as required by the Surplus Criterion<sup>3</sup>, the quantity of propane it seeks to export does not exceed the surplus remaining after due allowance has been made for the reasonably foreseeable requirements for use in Canada having regard to the trends in the discovery of gas in Canada. In support of this submission, AltaGas LPG submitted the following studies: (1) *Canadian Propane Supply and Demand through to 2051* – by Gas Processing Management Inc. (GPMi) (Appendix A) and (2) *AltaGas Ltd. Propane Export Licence Application: Implications and Surplus Assessment Report* by Mr. Roland Priddle (Mr. Priddle – Appendix B).

GPMi submitted that advances in horizontal drilling and multi-stage fracturing technology have given rise to a sharp increase in natural gas, natural gas liquids (NGLs) and crude oil supply in North America. Western Canadian natural gas production is expected to increase to supply liquefied natural gas (LNG) exports beginning late in this decade. Similarly, propane availability is likely to increase as producers continue to target the rich gas plays.

GPMi stated that recoverable resources of propane are not typically estimated. Furthermore, it noted, if natural gas is not processed for NGL recovery, then the NGL products do not exist.

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<sup>3</sup> Section 118 of the NEB Act.

The NGL molecules are just gas molecules and are consumed as gas. Nevertheless, subject to those qualifications, a reasonable estimate of the amount of propane ultimately recoverable in North America can be extrapolated from information available from several sources.

Mr. Priddle pointed out that Canadian and North American natural gas resources are very large and it is reasonable to assume that the amount of propane, preponderantly a product of gas processing, that could be available to market from those resources is also likely very large. While recognizing the challenges regarding data about the Canadian propane industry, Mr. Priddle stated, it is concluded with GPMi that the North American propane market is not supply constrained nor will it be during the term in which AltaGas LPG's proposed exports are made.

GPMi also provided projections of propane production, that show Canadian propane production growing over the forecast period, with growth dependent on LNG export projects coming on-stream. GPMi noted that most of the rapid growth of propane supply in the early years of the forecast comes from the ongoing development of liquids rich plays in the Marcellus, Utica and Eagle Ford areas of the U.S. Considered as a whole, it is clear that North America will continue to have a huge surplus of propane for the foreseeable future. GPMi stated that it does not foresee any plausible scenario where Canada would be unable to acquire adequate propane supply.

Mr. Priddle and GPMi noted that the North American market is generally efficient, transparent and liquid and responds to changes in supply/demand through price mechanisms. Mr. Priddle (and also GPMi) mentioned several facts to support this view, most of them supported by findings from the NEB and the Competition Bureau's *Propane Market Review*<sup>4</sup> published on 25 April 2014:

- Mr. Priddle stated that prices for Canadian bulk propane are formed by market forces at the Edmonton and Sarnia hubs and U.S. prices at Conway, Kansas and Mt. Belvieu, Texas hubs.
- The major hubs have large low-cost underground storage capacity and provide the physical basis for commercial transactions. Propane is further transported from these hubs by pipeline and also by rail tank car to markets throughout North America.
- Prices at all these propane hubs are linked by transportation differentials with the prices at Mt. Belvieu. GPMi further stated that historical prices at the North American propane hubs are highly correlated.

Mr. Priddle concluded that there is competitive entry to the integrated Canadian and North American propane market, which provides easy price discovery, presents liquidity features and efficiently balances supply and demand through the price mechanism. Mr. Priddle further noted that the physical volume (of propane) is smaller because most propane is produced as a by-product of gas processing; the smaller volume results in a less liquid market; and the degree of transparency provided by commercial, governmental, and regulatory activities is less than in respect of propane than for natural gas.

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<sup>4</sup> [Propane Market Review](#), NEB and Competition Bureau, 25 April 2014.

Mr. Priddle noted that propane prices will continue to be formed competitively by market forces balancing supply and demand within supportive policy and regulatory frameworks. Canadians will always be able to meet their propane requirements at market-determined prices.

Mr. Priddle in his evidence made reference to the *Propane Market Review* noting that it states that there is sufficient propane production, storage, and transportation infrastructure to meet the future needs of Canadians. The Review, he noted, also observed that congestion experienced at rack sites and other distribution points contributed to tight propane supply in the winter of 2014, likely as a result of both greater-than-usual demands placed on propane terminals and other transportation infrastructure, and disruptions related to weather conditions. Accordingly, the Board said, temporary price spikes and shortages are likely in the future. Mr. Priddle agrees with that statement because resolution of this situation would require investment in incremental storage, transportation and distribution facilities to service unpredictable weather-related demand peaks.

Mr. Priddle concluded that it is relevant to add that the export of the propane in this Application is unlikely to affect the potential for short term propane market disruptions in the Canadian and North American industry.

GPMi anticipates relatively steady growth of domestic propane demand in Canada over the forecast period. Natural gas and propane supply are relatively flat until LNG demand drives supply higher in the later part of the decade.

The rate of growth of Canadian propane demand in the GPMi outlook is a little more than 1% per annum. GPMi's forecast shows propane demand in 2015 of 106 thousand barrels per day (kbpd) growing to 162 kbpd in 2050 (a total growth of 56 kbpd or approximately 53% above 2015). GPMi also provided a sensitivity analysis considering an additional 20% increase in demand and noted that the additional demand is quite small in a North American context and could easily be accommodated by the combined supply response. In simple terms, a demand increase would lead to a price increase, which would lead to a supply response and a new equilibrium supply, demand and price point. In practice, the supply response would be a combination of increased domestic production, declining exports and increased imports. Further, GPMi believes that propane demand would have to roughly double the current forecast demand before there would be any material change to GPMi's conclusion that there will be a propane surplus over the outlook period.

### ***Views of the Board***

The Board has decided to issue a Licence to AltaGas LPG, subject to the approval of the Governor in Council, to export propane with the terms and conditions described in Appendix I to this letter. Our role, under section 118 of the NEB Act, is to assess whether the gas proposed to be exported, in this case propane, does not exceed the surplus remaining after due allowance has been made for the reasonably foreseeable requirements for use in Canada, having regard to trends in the discovery of gas in Canada (Surplus Criterion). In fulfilling this mandate, we recognize that Canadian propane requirements are met in the context of free trade within a North American energy market.

Depending on regional characteristics, exports and imports contribute to either a propane supply or propane demand. It is in this context that we consider whether the Surplus Criterion in the NEB Act is satisfied.

Overall, the Board agrees with the Applicant that the North American gas resource is very large and, because propane can be considered a gas by-product, the amount of propane that could be available to markets is likely large. The Board agrees that U.S. natural gas production is expected to remain strong and growing and that future Canadian natural gas production is somewhat linked to the development of West Coast LNG facilities.

The Board acknowledges that propane markets could experience short term disruptions for several reasons. As mentioned by GPMi, propane is produced as a by-product of natural gas processing and oil refining, which may leave propane producers unable to quickly respond to short term changes in market demand and prices. In addition, propane demand is highly seasonal, which makes the market heavily reliant on inventories to cover higher demand requirements, and which results in propane delivery infrastructure (including rail cars) being highly utilized during winter.

The Board shares Mr. Priddle's view that the North American propane market is not as large, liquid or transparent as the North American natural gas market. However, the Board is aware that there is a market-oriented regulatory framework in both countries, which allow propane prices to be settled by market forces.

The Board is satisfied that the propane resource base in Canada, and the overall North American propane resource base, is likely to be large given the size of the gas-resource base and can accommodate reasonably foreseeable Canadian propane demand, including the propane exports proposed by the Applicant, and a plausible potential increase in demand. The Board agrees with GPMi and Mr. Priddle that the North American propane market is generally liquid, open, efficient, integrated, and responsive to changes in supply and demand. However, the Board notes that the outlook for natural gas production linked to LNG exports is different now than when Pembina NGL Corporation and Pembina Resource Services Canada, by its managing partner 1195714 Alberta Ltd.<sup>5</sup> filed its application. Specifically, near-term exports of LNG from Canada are less likely. The Board accepts that there is currently a surplus of propane in North America, with the majority of surplus propane in the U.S. exported to overseas markets, and the majority of surplus Canadian propane exported to the U.S. with small volumes delivered to international markets via the U.S.

Given that the Board accepts the Applicant's analysis of current and forecast Canadian propane demand, given what is expected to be a large propane resource, and given the integrated nature of the North American propane market, the Board concludes that Canadian propane requirements will be met.

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<sup>5</sup> [Pembina NGL Corporation and Pembina Resource Services Canada, by its managing partner 1195714 Alberta Ltd.](#)

The Board also notes that no interested propane buyers chose to file letters of comment in this proceeding, despite the size of the export volumes applied for.

The Board monitors Canada's NGL supply and demand, including propane and other NGL developments to ensure that supply-demand balances continue to support the conclusions of this decision. Monitoring assists the Board in identifying where markets may not be functioning properly or where the evolution of supply and demand casts doubt on the ability of Canadians to meet future energy requirements. The Board notes that the evidence in this Application is generally consistent with the Board's current market monitoring.

Recent studies of natural gas resources and associated NGLs, including the Board's own study of the Montney formation in British Columbia<sup>6</sup>, indicate that advances in drilling and hydraulic fracturing have resulted in greatly increased estimates of recoverable resources in the Western Canada Sedimentary Basin. The Board will continue to include resource estimates for NGLs, in future resource studies where feasible.

The North American propane market is characterized by a large number of buyers and sellers, an extensive and growing pipeline and storage network, with a related commercial structure, that although smaller in market size and less sophisticated than the natural gas market, is nevertheless an active, liquid and quite efficient market.

## **Relief Requested**

### **Relief from Filing Requirements**

AltaGas LPG requests relief from the information requirements for propane, butanes, or ethane export applications set out in section 20 of the *National Energy Board Act Part VI (Oil and Gas) Regulations* (Oil and Gas Regulations) and in Guide Q of the Board's *Filing Manual*, except where those requirements are specifically addressed elsewhere in its Application.

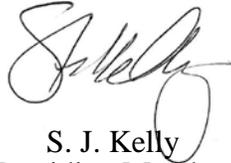
### ***Views of the Board***

The Board notes that it may exempt applicants for gas export licences from the filing requirements contained in section 20 of the Oil and Gas Regulations. In its *Interim Memorandum of Guidance Concerning Oil and Gas Export Applications and Gas Import Applications under Part VI of the NEB Act*, dated 11 July 2012, the Board indicated that it no longer requires applicants for propane, butanes or ethane export licences to file the information contained in section 20(e). The Board further recognizes that not all of the other filing requirements contained in section 20 of the Oil and Gas Regulations are relevant to its assessment of this Application. Therefore, the Board exempts AltaGas LPG from the filing requirements contained in section 20 of the Oil and Gas Regulations that were not included in the Application.

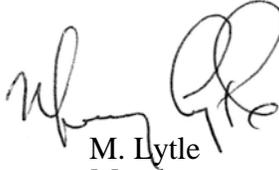
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<sup>6</sup> [The Ultimate Potential for Unconventional Petroleum from the Montney Formation of British Columbia and Alberta - Energy Briefing Note, November 2013](#)

Pertaining to AltaGas LPG's request for any further terms or relief the Board may consider appropriate in the circumstances, it is the Board's view that no further relief is necessary.



S. J. Kelly  
Presiding Member



M. Lytle  
Member



A. Scott  
Member

October 2016  
Calgary, Alberta

## Appendix I

### Terms and Conditions of the Licence to be Issued for the Export of Propane

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#### General

1. AltaGas LPG General Partner Inc. on behalf of AltaGas LPG Limited Partnership (AltaGas LPG) shall comply with all of the terms and conditions contained in this licence unless the National Energy Board (Board) otherwise directs.

#### Licence Term, Conditions and Point of Export

2. Subject to Condition 3, the term of this licence shall commence on the date of first export, and shall continue for a period of 25 years thereafter.
3. This Licence shall expire 10 years from the date of Governor-in-Council approval of its issuance, unless exports have commenced on or before that date, or the Board otherwise directs.
4. The quantity of propane that can be exported under the authority of this licence is:
  - a. Maximum annual quantity that may be exported in any 12-month period, including the 15% tolerance, may not exceed 2 669 391 m<sup>3</sup>.
  - b. Maximum term quantity, including the 15% tolerance, may not exceed 66 734 775 m<sup>3</sup>.
5. The propane will be exported from the outlet of a marine export terminal to be located near Prince Rupert, British Columbia and from points along the Canada-United States border where railway crossings occur (specifically Coutts, Alberta; Kingsgate, British Columbia; Huntingdon, British Columbia; and White Rock, British Columbia).