Canada Energy Regulator
Régie de l'énergie du Canada

Suite 210
517 Tenth Avenue SW
Calgary, Alberta
T2R 0A8

517, Dixième Avenue S.-O.
bureau 210
Calgary (Alberta)
T2R 0A8

LETTER DECISION

File OF-EI-Gas-GL-A792-2019-01 01
21 August 2020

Mr. Jamie Fisher
AltaGas Ltd.
1700, 355 4th Avenue SW
Calgary, AB T2P 0J1
Email jamie.fisher@altagas.ca

Mr. Chris Prokop
AltaGas Ltd.
1700, 355 4th Avenue SW
Calgary, AB T2P 0J1
Email chris.prokop@altagas.ca

Mr. D. G. Davies, Q.C.
Norton Rose Fulbright Canada LLP
3700 - 400 Third Avenue SW
Calgary, AB T2P 4H2
Email don.davies@nortonrosefulbright.com

Dear Mr. Fisher, Mr. Prokop, and Mr. Davies:

AltaGas LPG General Partner Inc., on behalf of AltaGas LPG Limited Partnership (AltaGas) Application dated 28 November 2019 (Application) for a 25-year Licence to Export Propane

On 28 November 2019, AltaGas applied to the Canada Energy Regulator (CER), pursuant to section 344 of the *Canadian Energy Regulator Act* (CER Act), for a Licence to export propane.

<u>AltaGas seeks:</u>

- a 25-year Licence to export propane, starting on the date of first export;
- including a 15% annual tolerance, a maximum annual export quantity of 2,669,391 cubic metres (m^3) or 16,790,000 barrels (bbls);
- a maximum quantity of 66,734,775 m^3 or 419,750,000 bbls of propane over the term of the Licence;
- the point of export of propane from Canada shall be a marine export terminal located near Prince Rupert, B.C. and points along the Canada - United States border where railway crossings occur (specifically: Lacolle, Quebec; Emerson, Manitoba; North Portal, Saskatchewan; Coutts, Alberta; Kingsgate, British Columbia; Huntingdon, British Columbia; and White Rock, British Columbia);
- an "early expiration clause" where, unless otherwise directed by the Commission of the CER (Commission), the term of the Licence ends 10 years after the date of issuance of the licence if the export of propane has not commenced on or before that date.

…/2

Decision:

The Commission has decided, pursuant to section 344 of the CER Act, to issue a 25-year Licence to AltaGas, subject to the approval of the Minister of Natural Resources, to export propane subject to the terms and conditions described in Appendix I to this letter. Further, the Commission has decided that the term of the Licence will commence upon Ministerial approval, if granted.

Summary of Public Notice, Comment Period, and Information Requests

On 3 February 2020, the Commission asked Information Request (IR) No. 1 to AltaGas, seeking an explanation of why AltaGas was applying for a new long-term export Licence instead of applying to vary (or revoke and reapply for) GL-338 to reflect increased volumes and additional export points.

On 7 February 2020, AltaGas responded stating that it had no business reason for selecting one alternative over the others.

On 23 March 2020, the Commission issued a letter to AltaGas indicating it would consider the Application and instructed AltaGas to publish the Notice of Application and Comment Period (Notice) according to Appendix I of the letter. The Notice indicated that the CER wished to obtain the views of potentially impacted persons on the merits of the application and that the CER would consider submissions relevant to the criteria in section 344 of the CER Act. In the letter, the Commission noted that it would consider whether any exports of propane by AltaGas should occur under the authority of one Licence, that is by varying GL-338, or two Licences, by issuing a standalone new Licence for some or all of the newly applied-for volumes and not varying Licence GL-338.

On 3 April 2020, AltaGas confirmed that the Notice was published in *The Globe & Mail* on 1 April 2020 and in *La Presse* on 2 April 2020.

The Commission held a public comment period between 6 April and 6 May 2020. No submissions were received.

On 11 May 2020, AltaGas confirmed that a hardcopy of the Application was available for public review at the AltaGas office from 6 April 2020 to 6 May 2020, inclusive.

On 14 May 2020, the Commission issued IR No. 2 to AltaGas seeking information with respect to AltaGas's supply and production assumptions, effects of current events on AltaGas's long-term supply and demand outlooks, and relief requested. AltaGas filed its responses on 1 June 2020.

Surplus Determination

AltaGas submitted that, as required by the Surplus Criterion[1], 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 submitted two studies: (1) *Canadian Propane Supply and Demand through 2055* by Goobie Tulk Inc. (GTI Report), and (2) *AltaGas LPG General Partner Inc. Propane Export Licence Application: Implications and Surplus Assessment Report* by Mr. Roland Priddle (Priddle Report).

[1] Section 345 of the CER Act.

The GTI Report suggests that advances in horizontal drilling and multi-stage fracturing technology have given rise to a sharp increase in natural gas, natural gas liquids (NGL), and crude oil supply in North America. Western Canadian natural gas production is expected to increase to supply liquefied natural gas (LNG) exports in the early to mid-2020s. Similarly, propane availability is likely to increase as producers continue to target the rich gas plays.

The GTI Report also states that recoverable resources of propane are not typically estimated. Furthermore, it notes that if natural gas is not processed for NGL recovery then the NGL products do not exist. Without such processing, 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.

The Priddle Report describes Canadian and North American natural gas resources as very large and indicates 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. The GTI Report notes that in theory, propane resources are simply a fraction of natural gas and crude oil resources. In practice, there is often little tangible evidence upon which to estimate the relevant fractions and therefore the determination of resource potential is often more a matter of judgment rather than analysis. While recognizing the challenges regarding data about the Canadian propane industry, the Priddle Report states that the North American propane market is not supply constrained nor will it be during the term in which AltaGas' proposed exports are made.

The GTI Report provides three scenarios of propane supply that show Canadian propane production growing over the forecast period, with this growth dependent on LNG export projects coming on-stream. In addition to its no-LNG "GTI Base" forecast, GTI provides two LNG scenarios for propane production: "GTI LNG 1" and "GTI LNG 2". The former assumes 2.0 billion cubic feet per day (Bcf/d) of LNG exports in 2024/25, expanding to 4.8 Bcf/d by 2031, while the latter assumes an additional 4.5 Bcf/d of LNG exports by 2034. In response to Commission IR No. 2.2d), AltaGas submitted a corrected Canadian propane supply forecast for the GTI Base Case and two LNG scenarios.

In all three supply scenarios set out in the GTI Report, Canadian propane production grows. GTI expects propane supply in Canada to grow from 244.1 thousand barrels per day (Mb/d) in 2018 to 321.2 Mb/d in 2023 in all three scenarios. By 2055, propane supply grows to 336.4 Mb/d (GTI Base), 410.1 Mb/d (GTI LNG 1), and 497.3 Mb/d (GTI LNG 2).

The GTI report notes that the United States (U.S.) propane supply is expected to continue growing with the ongoing development of liquids-rich plays in the Marcellus, Utica, Permian, and Eagle Ford areas. Considered as a whole, it is clear that North America will continue to have a large surplus of propane for the foreseeable future. The GTI Report foresees no plausible scenario where Canada would be unable to acquire adequate propane supply.

The GTI Report anticipates relatively steady growth of domestic propane demand in Canada over the forecast period. In its GTI Base scenario, the forecast shows Canadian propane demand of 103.5 Mb/d in 2018 growing to 178.5 Mb/d in 2055. In its GTI LNG 1 scenario, the forecast shows Canadian propane demand growing to 190.3 Mb/d in 2055.

In all three scenarios, the GTI Report forecasts Canadian petrochemical demand for propane increasing quickly in the 2022 to 2025 period with the start-up of two propane dehydrogenation (PDH) facilities in Alberta. AltaGas stated in response to Commission IR No. 2.1a) that GTI notes that the in-service date of Inter Pipeline's Heartland

Petrochemical Complex may shift from late 2021 to early 2022 and that Pembina has deferred its PDH project. The consequence of this is increased availability of propane for export at least during the early part of the outlook, while long-term total petrochemical demand will not change materially. Overall, the rate of growth of Canadian propane demand in GTI's outlook, after the start-up of Alberta's PDH projects, is less than 1% per annum.

The GTI Report's sensitivity analysis of demand considered an additional 50% of growth in propane demand after the start-up of the Alberta PDH projects. The GTI Report notes that an additional 50% growth would be approximately 14 Mb/d of additional propane demand by 2055. The GTI Report states that the additional demand growth 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, the GTI Report notes that propane demand would have to grow substantially above the current forecast demand before there would be any material change to the conclusion of the report: that there will be a surplus of propane over the outlook period. The GTI Report notes that such a large demand growth would require fundamental changes in the relative cost relationships of propane versus other fuels, and the GTI Report does not expect such fundamental changes to occur.

Both the Priddle Report and the GTI Report note that the North American market is generally efficient, integrated, transparent, and liquid, and responsive to changes in supply/demand through price mechanisms. The Priddle Report mentions several facts to support this view, most of them supported by findings from the *Propane Market Review* (Review) published by the National Energy Board (NEB) and Competition Bureau on 25 April 2014:

- Prices for Canadian bulk propane are formed by market forces at the Edmonton and Sarnia hubs, and U.S. prices at Conway, Kansas and Mont Belvieu, Texas hubs. Prices at these propane hubs are linked by transportation differentials from the prices formed at Mont Belvieu, the largest propane storage and market hub in North America.
- Prices continuously reflect the availability of sufficient and accurate market information. The market appears at all times to clear continuously, even though the prices required to clear the market may vary enormously over time.
- 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 pipelines and by rail tank cars to markets throughout North America.

The Priddle Report concludes 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. The Priddle Report further notes that the physical volume of propane traded is smaller than the volume of natural gas traded 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.

The Priddle Report notes 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.

The Priddle Report submits that the Review stated that there is sufficient propane production, storage and transportation infrastructure to meet the future needs of Canadians. The Review, he notes, 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 NEB stated temporary price spikes and shortages are likely in the future. The Priddle Report shares this view, because resolution of this situation would require investment in incremental storage, transportation and distribution facilities to service unpredictable weather-related demand peaks.

The Priddle Report concludes 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.

Views of the Commission

The Commission's role, under section 345 of the CER 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, the Commission recognizes 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 the Commission considers whether the Surplus Criterion in the CER Act is satisfied.

For the purpose of this Decision, the Commission accepts the Applicant's analysis of current and forecasted Canadian propane demand and its assessment that Canadian propane requirements will be met over the term of the Licence, given the resource base and the integrated nature of the North American propane market. The Commission held a comment process but received no submissions in response. As a result, the Commission did not receive evidence that conflicted with this conclusion and no contrary opinions were put forth.

The Commission acknowledges that propane markets could experience short-term disruptions for several reasons. As mentioned in the GTI Report and the Priddle Report, 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. This seasonal demand results in propane delivery infrastructure (including rail cars) being highly utilized during winter.

The Commission accepts the view expressed in the Priddle Report that the North American propane market is not as large, liquid, or transparent as the North American natural gas market. However, the Commission is aware that there is a market-oriented regulatory framework in both the U.S and Canada that allows propane prices to be settled by market forces.

The Commission accepts the position presented in the GTI Report and the Priddle Report that the North American propane market is generally liquid, open, efficient, integrated and responsive to changes in supply and demand.

The Commission 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.

The CER monitors Canada's NGL supply and demand, including propane and other NGL developments. Monitoring assists the CER 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 Commission notes that the evidence in this Application is generally consistent with the CER's current market monitoring.

Commencement of Term of Licence and Issuance of Single Licence

AltaGas requested a Licence to export propane with a term of 25 years to commence on the date of first export. AltaGas also requested that any propane export Licence issued be made subject to what it described as an "early expiration clause". If such a clause were included in an export Licence, the term of the Licence would end 10 years after the date of issuance of the Licence if the export of propane had not commenced on or before that date.

Views of the Commission

The CER, like its predecessor the NEB, makes certain export Licences[2] subject to a delayed effective date and a related early expiration clause from the time of approval. This practice occurs when an export Licence is associated with a facility and the facility is in the planning phase. This approach provides applicants with a period of time within which to construct the facility before the term of the export Licence commences.[3]

AltaGas's exports are primarily associated with the Ridley Island Propane Export Terminal (RIPET), which is constructed and has been exporting since May 2019. The Commission accepts AltaGas's assertion that the increased export capability from the RIPET to be associated with GL-344 can be achieved through efficiency enhancements and optimizations. Investment in new equipment, if needed, will be minimal. As a result, in the Commission's view, there is no need for a delayed effective date and a related early expiration clause. The Commission has determined that the term of GL-344 will commence on the date of Ministerial approval, if granted.

In its assessment, the Commission also considered whether any exports of propane by AltaGas should occur under the authority of one Licence, that is by varying GL-338, or two Licences, by issuing a standalone new Licence.

[2] For the export of propane and LNG.

[3] For example, the NEB included a delayed effective date and a related early expiration clause in AltaGas's propane export Licence approved 2016 (A80059-1), Pacific Traverse Energy Ltd.'s propane export Licence approved 2018 (A93367-1), and Pembina NGL Corporation and Pembina Resource Services Canada's Licence approved 2015 (A73728-1), all associated with proposed export facilities.

Views of the Commission

The Commission has determined that it will issue, subject to Ministerial approval, a new Licence to AltaGas, as GL-338 and GL-344 have different terms and some different export points, and to promote administrative efficiency in the reporting and monitoring of exports.

Relief from Filing Requirements

AltaGas requested 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* (Part VI Regulations), except where those requirements are addressed within the Application.

In its response to IR No. 2.4, AltaGas provided further information, indicating that details of supply contracts and reserves, of export contracts, of transportation contracts, of potential environmental effects, and of specific governmental approvals, as particularized in section 20 of the Part VI Regulations, are not necessary for the Commission to fulfill its mandate to assess the Surplus Criterion.

Views of the Commission

The Commission is satisfied that AltaGas has met the filing requirements of section 20 of the Part VI Regulations and the Commission finds that AltaGas has sufficiently demonstrated that it is unable to provide further information.

The Commission notes that in previous NEB decisions, similar relief has been requested and granted in numerous propane export applications as a result of the NEB's *Interim Memorandum of Guidance Concerning Oil and Gas Export Applications and Gas Import Applications under Part VI of the National Energy Board Act*, dated 11 July 2012 (the Memorandum). The Memorandum indicates that applicants for gas export Licences are no longer required to file the information contained in paragraph 20(e) of the Part VI Regulations. The CER is in the process of updating the Part VI Regulations to align with changes to the new CER Act.

The Commission recognizes that not all of the filing requirements contained in section 20 of the Part VI Regulations are relevant to its assessment of this Application. Therefore, the Commission exempts AltaGas from the filing requirements contained in section 20 of the Part VI Regulations that were not included in the Application.

In the Commission's view, no further relief is required in the granting of this Application.

Yours sincerely,

Original signed by S. Wong for

Jean-Denis Charlebois
Secretary of the Commission

Attachment

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), must comply with all of the terms and conditions contained in this Licence unless the Commission of the Canada Energy Regulator otherwise directs.

Licence Term, Conditions and Point of Export

2. The term of this Licence commences on the date of Ministerial approval of the issuance of the Licence and continues for a period of 25 years thereafter.

3. The maximum quantity of propane, inclusive 15% of tolerance, that can be exported by AltaGas under the authority of this Licence is:

   a. 2,669,391 m^3 annually, in any 12-month period; and

   b. 66,734,775 m^3 for the term.

4. The point of export of propane from Canada must be a marine export terminal located near Prince Rupert, B.C. and points along the Canada - United States border where railway crossings occur (specifically: Lacolle, Quebec; Emerson, Manitoba; North Portal, Saskatchewan; Coutts, Alberta; Kingsgate, British Columbia; Huntingdon, British Columbia; and White Rock, British Columbia).

5. The propane to be exported by AltaGas must meet the definition of natural gas set out in the *National Energy Board Act Part VI (Oil and Gas) Regulations.*