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LETTER DECISION

File OF-EI-Gas-GL-A792-2021-01 01
23 June 2022

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Dear Jamie Fisher, Chris Prokop, and D. G. Davies:

AltaGas LPG General Partner Inc., on behalf of AltaGas LPG Limited Partnership (AltaGas) Application for a Licence to Export Butane (Application)

**Before: M. Watton, Presiding Commissioner; D. Côté, Commissioner;
M. Chartier, Commissioner**

On 15 October 2021, 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 butane.

AltaGas seeks:

- a 25-year Licence to export butane, starting on the date of first export;
- a maximum annual export quantity of 2,669,391 cubic metres (**m³**) or 16,790,000 barrels (**bbls**), including a 15% annual tolerance;
- a maximum quantity of 66,734,775 m³ or 419,750,000 bbls of butane over the term of the Licence;
- the points of export of butane from Canada: Aldergrove, British Columbia; Huntingdon, British Columbia; Kingsgate, British Columbia; Osoyoos, British Columbia; Ridley Island, British Columbia; Surrey, British Columbia; Carway, Alberta; Coutts, Alberta; North Portal, Saskatchewan; Boissevain, Manitoba; Emerson, Manitoba; Cornwall, Ontario; Fort Erie, Ontario; Fort Frances, Ontario; Lansdowne, Ontario; Sarnia, Ontario; Sault Ste. Marie, Ontario; Windsor, Ontario; Armstrong, Quebec; Lacolle, Quebec; Philipsburg, Quebec; St. Stephen, New Brunswick; Woodstock, New Brunswick; and

.../2

- 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 butane has not commenced on or before that date.

Decision

The Commission has decided, pursuant to section 344 of the CER Act, to issue a 25-year Licence to AltaGas, with a term commencing upon issuance of the Licence. This Licence is to export butane and is subject to the terms and conditions described in Appendix I to this letter. The issuance of this Licence requires the approval of the Minister of Natural Resources.

Summary of Public Notice, Comment Period, and Information Requests

On 29 November 2021, the Commission issued Information Request (**IR**) No. 1 to AltaGas. In IR 1.1, the Commission asked whether AltaGas had any concerns if the Commission were to grant the licence without an "early expiration clause."

On 13 December 2021, AltaGas responded to Commission IR No. 1. In that response, AltaGas stated that the proposed exports are associated with the Ferndale Terminal and are expected to commence when the licence is issued, and that it does not have any concern if the Commission were to grant the licence without the "early expiration clause."

On 21 January 2022, the Commission issued IR No. 2 and a letter to AltaGas indicating it found the application to be complete. The Commission instructed AltaGas to publish the Notice of Application and Comment Period (**Notice**) according to Appendix I of the letter. The Notice indicated that the Commission wished to obtain the views of potentially impacted persons on the merits of the application and that the Commission would consider submissions relevant to the criteria in section 344 of the CER Act.

On 28 January 2022, AltaGas responded to Commission IR No. 2.

On 10 February 2022, AltaGas filed a letter requesting an extension to the deadline to publish its Notice. The Commission granted AltaGas an extension on 11 February 2022.

On 8 March 2022, AltaGas confirmed that the Notice was published in all the required newspapers between 17 February and 24 February 2022¹ and filed the tear sheets on 10 March 2022 as proof of publication. AltaGas also confirmed, in a 26 April 2022 letter, that it served the Notice on all parties listed in Appendix III of the Commission's 21 January 2022 letter prior to 4 March 2022.

The Commission held a public comment period between 4 March and 4 April 2022. No submissions were received.

¹ AltaGas published its notice in *Vancouver Sun* on 17 February 2022; *La Source*, 22 February 2022; *Le Franco*, 3 March 2022; *Edmonton Journal*, 17 February 2022; *Calgary Herald*, 17 February 2022; *L'Eau Vive*, 2 March 2022; *La Liberté*, 23 February 2022; *Le Métropolitain*, 24 February 2022; *L'Express*, 19 February 2022; *Toronto Star*, 17 February 2022; *Le Devoir*, 17 February 2022; *Montreal Gazette*, 17 February 2022; *L'Acadie Nouvelle*, 17 February 2022; *Telegraph Journal*, 17 February 2022, and *National Post*, 17 February 2022.

Surplus Determination

AltaGas submitted that, as required by the Surplus Criterion,² the quantity of butane 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 natural gas in Canada. In support of this submission, AltaGas submitted two expert reports: (1) *Canadian Butane Supply and Demand through 2060* by Goobie Tulk Inc. (GTI), and (2) *Implications and Surplus Assessment Report* by Roland Priddle.

Both the Priddle Report and the GTI Report state that the North American butane market is generally efficient, integrated, transparent, liquid, and responsive to changes in supply and demand through price mechanisms. The Priddle Report notes there are many participants in the butane market and an extensive and growing network of processing plants, pipelines, rail transportation, and storage facilities. Butane prices will continue to be formed competitively by market forces balancing supply and demand within supportive policy and regulatory frameworks. As a result, the Priddle Report concludes that Canadians will always be able to meet their butane requirements at market-determined prices.

Regarding the supply of butane, 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 butane that could be available to market from those resources is also likely very large. While recognizing the challenges regarding data about the Canadian butane industry, the Priddle Report states that the North American butane market is not supply-constrained nor will it be during the term in which AltaGas' proposed exports are made and that there will be a continuing surplus of butane in North America.

The GTI Report states 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 mid-2020s. Similarly, the United States (U.S.) butane supply is expected to continue increasing as producers continue to target liquids-rich production areas. The GTI Report indicates that a "conservative" estimate of Canada's butane resource potential is approximately 9.3 billion barrels, and that North America's resource potential is approximately 25.0 billion barrels. This equates to 230 years of supply for North America at current consumption rates.

To assess butane supply in Canada, the GTI Report provides three scenarios of Canadian butane supply, where butane supply is strongly linked to natural gas production in each scenario. GTI assumes producers continue to target liquids-rich gas regions. The butane supply forecasts are based on an analysis of Western Canadian natural gas production and estimates of NGL recoveries as well as other supplies from refineries and off-gas processing. LNG developments will have a large impact on future Canadian natural gas and NGL supply, and correspondingly, GTI considers three LNG development scenarios. GTI's three scenarios for LNG exports from Canada's West Coast are: the Low Case (1.5 Bcf/d in 2025/26 for the entire projection period); the Base Case (1.5 Bcf/d in 2025/26 increasing to 3.5 Bcf/d in 2030/31); and the High Case (1.5 Bcf/d in 2025/26 increasing to 3.5 Bcf/d in 2030/31 and to 5.5 Bcf/d in 2031/32).

In all three of the GTI scenarios, Canadian butane production in 2060 is higher than in 2020. GTI expects butane production in Canada to increase from 145.0 thousand barrels per day (Mb/d) in 2020 to 156.9 Mb/d in 2060 in the GTI Low Case. Butane production grows more in the other two scenarios because it is driven by higher assumed LNG exports and

² Section 345 of the CER Act.

correspondingly higher natural gas production. Butane production increases to 187.4 Mb/d in 2060 in the GTI Base Case and 210.7 Mb/d in 2060 in the GTI High Case.

On the demand side, the Priddle Report notes that the largest component of butane demand is for gasoline blending, which is seasonal. However, unlike propane, butane is not temperature sensitive and demand for it has been satisfactorily met by inventory build and draw for decades. Also, unlike propane, there is a base load demand for butane in uses such as diluent and petrochemicals which are not seasonal.

The GTI Report anticipates relatively small changes of domestic butane demand in Canada over the forecast period. In its GTI Low Case, the forecast shows Canadian butane demand of 103.1 Mb/d in 2020 falling to 90.1 Mb/d in 2060. Butane demand grows to 114.0 Mb/d in 2060 in the GTI Base Case and 135.5 Mb/d in 2060 in the GTI High Case.

The rate of growth of domestic Canadian butane demand in the GTI Base Case is less than 1% per annum, with a total growth of 10 Mb/d or ~10% from 2021 to 2060. An additional 50% growth would be approximately 5 Mb/d of additional butane demand or a total butane demand growth of ~14% above 2021 levels. 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. Furthermore, butane demand would have to grow substantially above the current forecasts before there would be any material change to GTI's conclusion: that there will be a butane surplus over the outlook period. Such large demand growth would require fundamental changes in the relative cost relationships of butane versus other fuels. GTI does not expect such fundamental changes to occur.

The Commission's Information Request No. 1 asked if the GTI Report's natural gas supply forecasts consider long-term global and Canadian action to reduce greenhouse gas (GHG) emissions. AltaGas stated in its response that the forecasts indirectly consider actions to reduce GHG emissions, and that the GTI report utilizes multiple scenarios to incorporate all factors that affect natural gas supply and encompass the range of plausible outcomes for natural gas supply.

The GTI Report concludes that considering supply and demand together, North America will continue to have a large surplus of butane for the foreseeable future. GTI foresees no plausible scenario where Canada would be unable to acquire adequate butane supply.

Both reports acknowledged some challenges in forecasting butane supply. The GTI Report notes that recoverable resources of butane are not typically estimated, because if natural gas is not processed for NGL recovery then the NGL products do not exist. Nevertheless, subject to that qualification, a reasonable estimate of the amount of butane in crude oil and natural gas that is ultimately recoverable in North America can be extrapolated from information available from several sources.

Commission Analysis and Findings

The Commission's role, under section 345 of the CER Act, is to assess whether the gas proposed to be exported, in this case butane, 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 butane 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 butane supply or butane demand. It is in this context that the Commission considers whether the Surplus Criterion is satisfied.

The Commission recognizes the difficulty and uncertainty when forecasting energy production and demand as governments implement climate policy and when future policy is very uncertain. The Commission notes that while real long-term energy production and demand could substantially differ from what was presented in the GTI Report, it finds that Canada's and North America's butane market is liquid, open, efficient, and responsive to changes in supply and demand, which would help Canadians acquire the butane they need in most cases.

Based on the evidence before us, the Commission finds that the current and forecasted Canadian butane demand and Canadian butane requirements will be met over the term of the Licence, given the resource base and the integrated nature of the North American butane market.

The Commission is of the view that the major trends of discovery are that North American natural gas resources remain large, while producers continue to target liquids-rich natural gas.

Although the butane market is not as large, liquid, or transparent as the North American natural gas or propane markets, the Commission is of the view that there is a market-oriented regulatory framework in both the U.S and Canada that allows butane prices to be settled by market forces. Additionally, there is currently a surplus of butane in North America, with the majority of surplus butane in the U.S. exported to overseas markets, and the majority of surplus Canadian butane exported to the U.S. with small volumes delivered to international markets via the U.S. or via AltaGas' Ridley Island Terminal in Prince Rupert, B.C.

The CER monitors Canada's NGL supply and demand, including butane 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 finds that the evidence in this Application is consistent with the CER's current market monitoring.

Commencement of Term of Licence

AltaGas requested a Licence to export butane with a term of 25 years to commence on the date of first export. AltaGas also requested that the butane export Licence issuance 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 butane had not commenced on or before that date.

Commission Analysis and Findings

The Commission, like its predecessor the National Energy Board (**NEB**), makes certain export Licences³ 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.

³ Such as exports of propane and LNG.

This approach provides applicants with a period of time within which to construct the facility before the term of the export Licence commences.⁴

AltaGas' exports are primarily associated with the existing Ferndale Export Terminal, which is currently capable of exporting the proposed volumes. 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-345 will commence on the date of issuance of the Licence, if Ministerial approval is granted.

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.

Commission Analysis and Findings

The Commission is satisfied that AltaGas has met the filing requirements of section 20 of the Part VI Regulations that are relevant to the assessment of the surplus criterion, specifically paragraph 20(a).

The Commission notes that similar relief has been requested and granted in previous NEB decisions with respect to 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 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. Specifically, paragraphs 20 (b) – (f); details of supply contracts and resources, export contracts, transportation contracts, potential environmental effects, and of specific governmental approvals, are not relevant. Therefore, the Commission exempts AltaGas from these filing requirements.

No further relief is required in the granting of this Application.

Yours sincerely,

Signed by

Ramona Sladic
Secretary of the Commission

Attachment

June 2022
Calgary, Alberta

⁴ For example, the NEB included a delayed effective date and a related early expiration clause in AltaGas' propane export Licence approved in 2016 ([A80059-1](#)).

Appendix I

Terms and Conditions of the Licence to be Issued for the Export of Butane

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 issuance of the Licence and continues for a period of 25 years thereafter.
3. The maximum quantity of butane, inclusive of a 15% annual tolerance, that can be exported by AltaGas under the authority of this Licence is:
 - a. 2,669,391 m³ annually, in any 12-month period; and
 - b. 66,734,775 m³ for the term.
4. The points of export of butane from Canada must be: Aldergrove, British Columbia; Huntingdon, British Columbia; Kingsgate, British Columbia; Osoyoos, British Columbia; Ridley Island, British Columbia; Surrey, British Columbia; Carway, Alberta; Coutts, Alberta; North Portal, Saskatchewan; Boissevain, Manitoba; Emerson, Manitoba; Cornwall, Ontario; Fort Erie, Ontario; Fort Frances, Ontario; Lansdowne, Ontario; Sarnia, Ontario; Sault Ste. Marie, Ontario; Windsor, Ontario; Armstrong, Quebec; Lacolle, Quebec; Philipsburg, Quebec; St. Stephen, New Brunswick; Woodstock, New Brunswick.