NATIONAL ENERGY BOARD

IN THE MATTER OF the *National Energy Board Act*, RSC, 1985, c N-7, as amended, and the Regulations made thereunder;

AND IN THE MATTER OF an Application by Pacific Traverse Energy Ltd. for a licence pursuant to section 117 of the *National Energy Board Act* authorizing the export of propane.

APPLICATION BY PACIFIC TRAVERSE ENERGY LTD. FOR A LICENCE TO EXPORT PROPANE

To: Ms. Sheri Young, Secretary
National Energy Board
517-10th Avenue SW
Calgary, AB T2R 0A8

5 February 2018

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Appendices

APPENDIX "A": Canadian Propane Supply and Demand through 2055, dated January 2018 and prepared by Gas Processing Management Inc. ("**GMPi Report**")

APPENDIX "B": Implications and Surplus Assessment Report, dated February 2018 and prepared by Roland Priddle ("**Priddle Report**")

I. INTRODUCTION

1. Pacific Traverse Energy Ltd. (the "**Applicant**") applies to the National Energy Board ("**NEB**" or "**Board**") under section 117 of the *National Energy Board Act* ("**NEB Act**") for a licence to export propane in accordance with the following terms and conditions (collectively, the "**Terms and Conditions**"):

Term:	The term of the licence will commence on the date of first export of propane and will continue for a period of 25 years.
Early Expiration Date:	Unless otherwise directed by the Board, the term of the licence will end ten years after the date of issuance of the licence if the export of propane has not commenced on or before that date.
Annual Tolerance:	The quantity of propane that may be exported in any 12-month period may exceed the annual maximum by 15 percent.
Annual Quantity:	The quantity of propane that may be exported in any 12-month period, including the 15 percent annual tolerance, will not exceed 2,669,402 m^3 (16,790,005 bbls) of propane, inclusive of a 15% annual tolerance.[1]
Term Quantity:	The quantity of propane that may be exported over the term of the licence, including the 15 percent annual tolerances, will not exceed 66,735,050 m^3 (419,750,117 bbls).
Export Point:	The point of export from Canada will be a marine terminal near Kitimat, British Columbia.

2. This Application takes into account the following.

   a. section 118 of the NEB Act, which provides the criteria for considering an application for a licence to export propane – specifically, the Board must satisfy itself that the quantity of gas (in this case, propane) to be exported does not exceed the surplus remaining after due allowance has been made for the reasonably

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[1] The conversion factor used in this Application is 6.2898 US barrels per cubic metre.

foreseeable requirements for use in Canada, having regard to the trends in the discovery of gas in Canada (the "**Surplus Criterion**"),

b. the filing requirements set out in Guide Q of the Board's Filing Manual ("**Guide Q**"),

c. the *Interim Memorandum of Guidance Concerning Oil and Gas Export Applications and Gas Import Applications under Part VI of the National Energy Board Act* (the "**Interim MOG**") issued by the Board on July 11, 2012, and

d. the following Board Decisions:

    i. Board Decision, dated November 5, 2015, granting Pembina NGL Corporation, Pembina Resource Services Canada and Pembina Infrastructure and Logistics LP (collectively, "**Pembina**") a licence to export propane,

    ii. Board Decision, dated October 18, 2016, granting AltaGas LPG General Partner Inc. on behalf of AltaGas LPG Limited Partnership (collectively "**AltaGas**") a licence to export propane (the "**AltaGas Decision**"), and

    iii. Board Decision, dated January 12, 2017, granting Petrogas Energy Corp. ("**Petrogas**") a licence to export propane (the "**Petrogas Decision**").

3. The information included in this Application demonstrates that the Applicant has satisfied the Surplus Criterion – i.e. the quantity of propane to be exported by the Applicant 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, as required by section 118 of the NEB Act.

4. In accordance with Guide Q, the Interim MOG and the Petrogas Decision, the Applicant seeks relief from the filing requirements under section 20 of the *National Energy Board Act Part VI (Oil and Gas) Regulations* ("***Oil and Gas Regulations***") except where those requirements are met in this Application.

II. BACKGROUND

A. The Applicant

5. The Applicant, Pacific Traverse Energy Ltd., is a privately owned corporation that is registered and incorporated in the Province of British Columbia. Its head office and registered records office are in Vancouver, British Columbia.

6. The owners of the Applicant will include the suppliers and the end-use purchaser of the liquid propane for export, as well as investors with experience in the trade in energy products as well as the construction and operation of gas facilities throughout North America.

B. The Project

7. The Applicant proposes to construct and operate a new propane export facility on a site leased from the Haisla First Nation, near Kitimat in British Columbia. The basic project components to be constructed in Kitimat include:

   a. a liquid propane marine export terminal and associated propane chilling and liquefaction, storage and loading facilities ("**Marine Terminal**");

   b. transportation infrastructure to transfer the propane to the terminal from the existing railway terminus in Kitimat, including a new rail terminal and transfer yard, and transfer pipeline that connects the transfer yard to the Marine Terminal; and

   c. marine structures, road access and ancillary infrastructure to be located on the Marine Terminal site.

8. The Applicant intends to export propane recovered from natural gas processing and crude oil refining in Western Canada.

9. Propane will be transported to the Applicant's railyard site in Kitimat by the existing railway system. The propane will be off-loaded and transported through an approximately twelve-kilometre, above ground pipeline to the Marine Terminal in Kitimat where it will be cooled to liquid form and loaded on a marine vessel berthed there. The marine vessel,

which will be owned by the Applicant, will be used to store the propane before it is transferred to customer vessels for export.

10. The Project facilities will be designed with sufficient capacity to export the quantity of propane requested in Paragraph 1 of this Application.

11. The point of export will be the Marine Terminal. The Applicant, an affiliated company or one of the owners of the Applicant will own the propane at the point of export. The Applicant will hold the licence to allow for flexibility in the commercial arrangements related to the supply of propane to the Applicant's export facility.

12. The Applicant intends to make a final investment decision for the project in 2019 and it plans to begin exporting propane by the end of 2020.

C. Supply and Transportation

13. The Applicant and its owners have strong connections into the natural gas and propane market and will access supply through a combination of committed supply arrangements and open market purchases or swaps, depending on the most competitive and efficient options at the time.

14. The Applicant currently has sufficient interest and commitment from a diverse range of suppliers and purchasers to support the project.

15. The new export location is attractive to propane suppliers in Western Canada who wish to serve Asian markets because of its proximity to their supply and to their markets. The rail transport logistics are simpler and less expensive than the U.S. alternative export sites. Further, the delivery time to market is faster because of the more direct route. The west coast of Canada is roughly half the transit distance to Asia than from the U.S. Gulf Coast which is currently the marginal supply source in the world.

16. The current rail system infrastructure provides ready access to transport liquid propane to Kitimat. The Applicant will construct a new transfer pipeline – approximately 12 kilometres long – to connect the railway terminus in Kitimat to the marine terminal site in Kitimat.

17. Marine transport of LPG from Kitimat to international markets is currently permitted. At full export capacity, the Project would entail approximately three marine shipments per month on average.

D. Competitive Opportunity for Canadian Supply – Demand in the Asian Market

18. The GMPi Report elaborates on the competitive opportunity for propane export from the west coast, further confirming the viability of the Project and the requested export licence application.

> … The development of a LP Gas export facility on the west coast of North America would have several market advantages. These include being closer to Asian markets (roughly 10 - 12 days transit time versus 25+ days via the Panama Canal from the USGC [U.S. Gulf Coast] and greater than 20 days from the Middle East and Africa) as well as having access to LP Gas feedstock supplies that will likely be priced at a discount to USGC supplies. Once built, these operating cost advantages will ensure that a West Coast LP Gas export facility will likely enjoy high utilization rates because the delivered product will be very cost competitive in Asian markets.[2]

19. On the market side, Mr. Priddle notes the "spectacular" growth in demand for North American propane in the Asian market.

> The growth in Asian demand for North American propane has been spectacular: shipments have risen from near zero in 2010 to some 440,000 b/d and account for about half of total exports even though they currently must go "the long way around" to Asia from ports on the USA east and Gulf coasts. The long-term outlook is similar: demand growth is likely to be modest while will production will continue to increase both in Canada and the USA, linked to increasing production of natural gas and associated liquids, far outstripping North American requirements and resulting in continued export growth to serve mainly Asian markets. The opportunity

[2] GPMi Report, at page 33

> clearly exists for a new propane export facility on the Canadian West Coast.[3]

20. This Project and the associated export licence will help realize the market opportunity for Canada propane, which in turn will strengthen the production and supply of propane for domestic and export use.

E. Involvement of the Haisla Nation

21. The Project will be built, in part, on Haisla land in the Kitimat area and within the Traditional Territory of the Haisla. Therefore, the Project will only proceed with Haisla consent.

22. The Applicant has engaged with Haisla to review the Project and its various elements. The Applicant is also negotiating agreements with the Haisla to define the land use and the relationship the Haisla will have with the Project and the Applicant.

23. The Applicant shared this Application with the Haisla before it was filed, and the Haisla consented to the Applicant filing the Application.

III. THE SURPLUS CRITERION IS SATISFIED

24. Section 118 of the NEB Act establishes a surplus test for oil and gas export applications:

> On an application for a licence to export oil or gas, the Board shall satisfy itself that the quantity of oil or gas to be exported 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 oil or gas in Canada.

25. In the AltaGas Decision, the Board held that:[4]

> 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

[3] Priddle Report, at page 10.
[4] AltaGas Decision, at pages 4 and 5.

> 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.

26. To allow the Board to assess whether the Surplus Criterion is satisfied, the Applicant has enclosed the following reports:

    a. Canadian Propane Supply and Demand through 2055, dated January 2018 and prepared by Gas Processing Management Inc. ("**GPMi**"), and

    b. Implications and Surplus Assessment Report, dated February 2018 prepared by Roland Priddle.

27. GPMi analysis shows that the total supply of propane in Canada will continue to exceed domestic demand by a wide margin and that Canada will remain a net exporter of propane through 2055. GPMi does not foresee any plausible scenario where Canada would be unable to acquire adequate propane supply.[5]

28. Mr. Priddle similarly explains why the North American propane market is not supply constrained now, nor will it be during the term requested in this Application.[6] Taking into account the Applicant's proposed exports, Mr. Priddle is confident Canadians will be able to meet their propane requirements through 2055 easily, adequately, price-competitively and securely.[7]

29. The analyses by GPMi and Mr. Priddle demonstrate that this Application satisfies the Surplus Criterion – i.e. the quantity of propane to be exported by the Applicant 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, as required by section 118 of the NEB Act.

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[5] GPMi Report, at pages 4, 34 and 38.
[6] Priddle Report, at page 6.
[7] Priddle Report, at page 8.

30. In the Petrogas Decision, the Board issued a 10-year licence instead of a 25-year licence that was applied for by Petrogas. The Board explained its rationale as follows:[8]

> The Board is concerned that Petrogas is applying to export a very large quantity of propane, close to the entire volume currently exported from Canada on an annual basis. The Board is of the view that the evidence on the record does not support issuance of a licence for a term longer than 10 years. Although the Board recognizes Petrogas' statement that actual use of the licence will be "market dependent", there exists an uncertainty about Canadian propane supply beyond ten years on account of natural gas supply, and therefore, propane supply, being heavily influenced by the uncertainty of West Coast LNG exports. This uncertainty makes it difficult for the Board to make a determination of surplus for the large quantity and the term requested by the Applicant.

31. Petrogas was granted a maximum annual export quantity of 6,206,160 m^3 (39,036,750 bbls) (including a 15 percent tolerance). In this case, the Applicant is applying for a maximum annual export quantity of 2,669,402 m^3 (16,790,005 bbls) (including a 15 percent tolerance), which is a much smaller quantity than the quantity granted to Petrogas. Accordingly, the size of the annual export quantity requested by the Applicant should not give rise to any concern.

32. Further, the reports of both GPMi and Mr. Priddle respond directly to the concern of the Board in the Petrogas Decision. For example, Mr. Priddle explains why the supply from the United States must be considered in assessing the Surplus Criterion. Specifically, the North American market is integrated so the large quantity of propane available for export in the United States is available to meet Canadian requirements if necessary, given its geographical proximity.[9] Given the decline in U.S. domestic consumer demand for propane the opportunity for Canadian consumers is increasing.[10]

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[8] Petrogas Decision, at page 5.
[9] Priddle Report, at pages 20 and 21.
[10] Priddle Report, at pages 19 and 20.

33. Both GPMi and Mr. Priddle explain the importance of allowing propane exports to grow the production of propane in Canada, since domestic propane production is expected to grow faster than domestic demand.[11] GPMi states that

> … the future growth of the Canadian natural gas and NGL sectors is contingent on the development of new export projects to deliver products outside of North America.[12]

Mr. Priddle similarly states that export demand is "critical for the development of new liquid-rich gas resources."[13]

34. This export Application will support new export infrastructure in Kitimat to allow Western Canadian producers efficient access to important Asian markets. Strengthening the export infrastructure on the west coast of British Columbia to connect suppliers with markets will strengthen the supply production.

35. The GMPi Report also notes a strong competitive advantage for Canadian LPG exports from the west coast.

> A variety of factors indicate that North America in general and Western Canada in particular, will remain low cost producers of natural gas, crude oil and NGL. Once built, west coast LNG and LPG export projects will have a significant geographical advantage [The west coast of Canada is roughly half the transit distance to Asia than from the USGC which is currently the marginal supply source in the world] for Asian markets and that will ensure Western Canadian producers will be formidable competitors in world petroleum markets.[14]

36. The Applicant requests a 25-year licence, similar to the 25-year licences issued by the Board to AltaGas[15] and Pembina.[16] The maximum annual export quantity requested by the

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[11] GPMi Report at page 32; Priddle Report, at page 21.
[12] GPMi Report at page 38.
[13] Mr. Priddle's Report, at page 6.
[14] GPMi Report, page 10.
[15] Licence GL-338.
[16] Licence GL-326.

Applicant of 2,669,402 m^3 (including a 15 percent tolerance) is similar to the maximum annual export quantity granted to AltaGas, being 2,669,391 m^3 (including a 15 percent tolerance), and considerably smaller than the maximum annual export quantity granted to Pembina, which was 5,003,420 m^3 (including a 15 percent tolerance).

37. The requested export volume and term are well-supported by the supply analyses undertaken by GPMI and Mr. Priddle. Further, granting the requested export licence will help strengthen the opportunity for production and sale of propane in Western Canada by adding much needed export infrastructure on the west coast and greater access to international markets.

IV. RELIEF FROM FILING REQUIREMENTS

38. Section 20 of the *Oil and Gas Regulations* sets out information an applicant must provide to the Board in applying for a licence to export propane, unless the Board otherwise authorizes.

39. Guide Q states that the *Oil and Gas Regulations* are being reviewed and updated by Board and refers applicants to the Interim MOG for further information. Guide Q sets out the following filing requirements for a gas export licence:

a. the source and volume of gas to be exported,

b. a description of gas supplies, including Canadian gas supply, expected to be available to the Canadian market (including underlying assumptions) over the requested licence term,

c. a description of expected gas requirements (demand) for Canada (including underlying assumptions) over the requested licence term, and

d. the implications of the proposed export volumes on the ability of Canadians to meet their gas requirements.

40. The Interim MOG explains that, as a result of the enactment of the *Jobs, Growth and Long-term Prosperity Act* and the resulting amendments to the NEB Act, the Board is reviewing

and updating the *Oil and Gas Regulations*. The Interim MOG sets out information under the *Oil and Gas Regulations* that applicants no longer need to file in applying for gas export licences.

41. In the Petrogas Decision, the Board explained that it no longer requires applicants for propane, butane and ethane export licences to file the information in section 20 of the *Oil and Gas Regulations*:[17]

> 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 Petrogas from the filing requirements contained in section 20 of the Oil and Gas Regulations that were not included in the Application.

42. The Applicant has filed information in this Application to satisfy the same filing requirements under section 20 of the *Oil and Gas Regulations* that were satisfied by Petrogas in its application, including the filing requirements set out in Guide Q. The Applicant submits that the other filing requirements under section 20 of the *Oil and Gas Regulations* are not relevant to the Board's assessment of this Application, just as they were not relevant to the Board's assessment of Petrogas' application.

43. Accordingly, the Applicant seeks relief from the filing requirements under section 20 of the *Oil and Gas Regulations*, except where those requirements are addressed in this Application.

[17] Petrogas Decision, at page 6.

V. REQUESTED RELIEF

44. The Applicant respectfully requests that:

   a. the Board issue it a licence authorizing the export of propane pursuant to section 117 of the NEB Act, subject to the Terms and Conditions set out in paragraph 1 of this Application, and

   b. the Board grant it relief from the filing requirements under section 20 of the *Oil and Gas Regulations*, except where those requirements are addressed in this Application.

All of which is respectfully submitted this 5th day of February 2018

Original signed by

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