

# ALBERTA ENERGY AND UTILITIES BOARD

Calgary, Alberta

## NOVA GAS TRANSMISSION LTD. APPLICATIONS FOR PERMITS TO CONSTRUCT AND OPERATE NATURAL GAS PIPELINES IN THE ZAMA/SHEKILIE AREA

Decision D 96-2  
Applications No. 951880, 951881 and 951882

### 1.1 Applications

Pursuant to Part 4 of the Pipeline Act, NOVA Gas Transmission Ltd. (NGTL) applied for approval to construct and operate a meter station in Legal Subdivision 11, Section 4, Township 119, Range 12, West of the 6th Meridian, and approximately 6 kilometres (km) of 273.1-millimetre (mm) outside diameter (OD) pipeline from Lsd 11-4-119-12 W6M to Lsd 1-1-119-12 W6M, 18 km of 508 mm OD pipeline from Lsd 1-1-119-12 W6M to Lsd 1-11-117-12 W6M, and 63 km of 406.4 mm OD pipeline from Lsd 1-11-117-12 W6M to the existing NGTL Zama Lake #2 Meter Station in Lsd 6-12-116-6 W6M.

### 1.2 Hearing

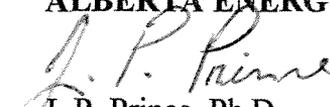
A public hearing to consider the applications was held in Calgary, Alberta, on 17 and 18 January 1996 before Board Members J. P. Prince, Ph.D. (Presiding Member), A. C. Barfett, B. F. Bietz, Ph.D., P.Biol., and J. D. Dilay, P.Eng. Westcoast Energy Inc. intervened to oppose the applications. It also submitted that the Alberta Energy and Utilities Board does not have jurisdiction to consider the applications. Novagas Clearinghouse Ltd., Novagas Clearinghouse Pipelines Ltd., Gulf Canada Resources Limited and Ohio Resources Corporation intervened in support of the applications.

### 1.3 Decision

Having considered all of the evidence, as well as the arguments relating to jurisdiction, the Board is of the view that it has the necessary jurisdiction to consider the NGTL applications. The Board is satisfied that there is a need for NGTL's proposed facilities, they meet all of the Board's regulatory requirements, and are in the public interest. Therefore, the Board approves the applications, will issue the appropriate permits immediately, and will provide a detailed report with reasons for its decision in due course.

DATED at Calgary, Alberta, on 22 January 1996.

## ALBERTA ENERGY AND UTILITIES BOARD

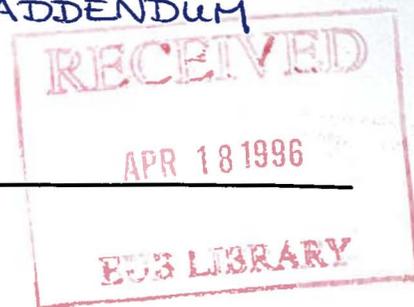
  
J. P. Prince, Ph.D.  
Board Member

A. C. Barfett\*  
Board Member

  
B. F. Bietz, Ph.D., P.Biol.  
Board Member

J. D. Dilay, P.Eng.\*  
Board Member

\* Ms. Barfett and Mr. Dilay were not available for signature but concurred with the decision.

**ALBERTA ENERGY AND UTILITIES BOARD**

Calgary, Alberta

**NOVA GAS TRANSMISSION LTD.**
**APPLICATIONS FOR PERMITS TO CONSTRUCT  
AND OPERATE NATURAL GAS PIPELINES IN  
THE ZAMA/SHEKILIE AREA**

Addendum to Decision D 96-2

Applications No. 951880, 951881, and 951882

**1 INTRODUCTION****1.1 Applications**

Pursuant to Part 4 of the Pipeline Act, NOVA Gas Transmission Ltd. (NGTL) applied for approval to construct and operate a meter station in Legal Subdivision (Lsd) 11, Section 4, Township 119, Range 12, West of the 6th Meridian, and approximately 6 kilometres (km) of 273.1-millimetre (mm) outside diameter (OD) pipeline from Lsd 11-4-119-12 W6M to Lsd 1-1-119-12 W6M, 18 km of 508 mm OD pipeline from Lsd 1-1-119-12 W6M to Lsd 1-11-117-12 W6M, and 63 km of 406.4 mm OD pipeline from Lsd 1-11-117-12 W6M to the existing NGTL Zama Lake #2 Meter Station in Lsd 6-12-116-6 W6M. The proposed pipeline route is shown in the attached figure. The proposed facilities would connect to upstream facilities in northeastern British Columbia (BC) (referred to as the Peggo facility and the Pesh Creek pipeline).

**1.2 Hearing**

The applications were considered at a public hearing in Calgary, Alberta, on 17 and 18 January 1996 with Board Members J. P. Prince, Ph.D. (Chair), A. C. Barfett, B. F. Bietz, Ph.D., P.Biol., and J. D. Dilay, P.Eng. sitting. Having considered all of the evidence and argument presented at the hearing, the Board issued Decision D 96-2 (attached) approving the applications, with a detailed report to follow. This Addendum to Decision D 96-2 details the Board's findings and reasons for its decision.

**THOSE WHO APPEARED AT THE HEARING**
**Principals and Representatives  
(Abbreviations Used in Report)**
**Witnesses**

NOVA Gas Transmission Ltd. (NGTL)  
F. R. Foran, Q.C.

E. Shelton, P.Eng.  
K. Heffernan, P.Geol.  
A. Wile, P.Eng.

Westcoast Energy Inc. (WEI)  
G. K. Macintosh, Q.C.

S. Taylor, P.Geol.

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**THOSE WHO APPEARED AT THE HEARING (cont)**

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**Principals and Representatives  
(Abbreviations Used in Report)**

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**Witnesses**

Gulf Canada Resources Limited (Gulf)  
A. L. McLarty

R. Lennox, P.Geol.  
M. Krause

Ohio Resources Corporation (Ohio)  
A. L. McLarty

Novagas Clearinghouse Ltd. (NCL)  
F. M. Saville, Q.C.

W. Rousch, P.Eng.

Novagas Clearinghouse Pipelines Ltd. (NCPL)  
F. M. Saville, Q.C.

Alberta Energy and Utilities Board Staff  
M. Bruni  
K. Sharp, P.Eng.  
S. Lee, P.Eng.

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The following parties filed submissions but did not participate in the hearing:

Canadian Association of Petroleum Producers (CAPP)  
Beau Canada Exploration Ltd.  
Phillips Petroleum Resources, Ltd.  
Westcoast Gas Services Inc.  
BC Gas Utility Ltd.

### **1.3 Preliminary Matters**

At the outset of the hearing, WEI argued that the Board does not have jurisdiction to consider the NGTL applications and that the hearing should be adjourned. It submitted that NGTL's proposed facilities are related and integral to facilities concurrently proposed by NCL and NCPL to the BC Ministry of Municipal Affairs and the National Energy Board (NEB), respectively. It stated that these proposals are interprovincial in nature and should be considered as one federal undertaking under the jurisdiction of the NEB. It submitted that only the NEB is able to look properly at questions such as reserves and commercial viability of a project which spans two provinces. It further submitted that segmenting jurisdiction for the consideration of these applications could result in inconsistent rulings, or alternatively, fetter the independence of the various regulatory bodies.

WEI noted the NEB's 12 January 1996 decision to refer the NCPL application to the Federal Court of Appeal in order to confirm jurisdiction. WEI requested the Board adjourn hearing of the NGTL applications until the Federal Court had ruled. It submitted that, should the Board proceed with the hearing and subsequently approve the applications prior to the Federal Court ruling, the Board would have acted without jurisdiction. In that case, if the Federal Court later ruled that the whole project is from a constitutional viewpoint, federal in character, the order for approval of the facilities would be an order of no effect.

NGTL did not agree with WEI's characterization of NGTL's proposed facilities as being interprovincial in nature. It stated that its proposed facilities are within Alberta, and should be considered as a separate entity from those of NCL and NCPL. It submitted that there have been no inconsistent findings by any regulator. NGTL noted that the BC Ministry of Municipal Affairs has approved the NCL application and that the NEB is prepared to consider the NCPL application. It also noted that the NEB has decided to refer only the jurisdictional question to the Federal Court of Appeal. NGTL submitted that the Board does have jurisdiction and that it should proceed with the hearing.

NCL, NCPL, Gulf, and Ohio concurred with NGTL's comments and requested the Board to proceed with the hearing.

Following the discussion on preliminary matters, the Board decided to reserve its decision on jurisdiction. The Board also decided to continue with the hearing in order to complete the record on the applications, to allow an opportunity for all parties to present their views on the applications as well as expand on jurisdictional matters in final argument.

### **1.4 Views of the Board on Jurisdiction**

With respect to the applications before it, the Board acknowledges the NEB's decision to refer the issue of jurisdiction to the Federal Court of Appeal. The Board has also considered the arguments of parties on jurisdiction.

The Board derives its regulatory authority over the pipeline sector from the Pipeline Act, Revised Statutes of Alberta. The Act defines the Board's authority and responsibility to deal with a variety of pipeline issues within Alberta. As part of the regulatory framework under which the Board discharges its responsibilities, the Board issued Informational Letter IL 90-8, on 22 June 1990. That informational letter, entitled Procedures for the Assessment of NOVA Pipeline Applications - Industry Review, describes a process of application and consultation applicable to new facilities envisioned by NGTL. The process includes the submission of an annual plan which sets out NGTL's pipeline facility requirements and plans for the next several years.

The Board notes that the applications before it, with the exception of the 6 km lateral, relate to facilities that have been generally described in NGTL's annual plans since June of 1994. The annual plan states that the facilities are necessary to enable development of significant reserves in northwestern Alberta. The most recent annual plan, for 1996/97, which was submitted in June of 1995, continues to cite the applied-for facilities as being required to develop the northwestern region of the province. The Board accepts that the proposed facilities are necessary for intra-provincial development of the province's resources and essentially are an extension of NGTL's gathering system in Alberta (Section 3.3). The applications were properly submitted in accordance with the Pipeline Act and all legislative and regulatory requirements of the Province of Alberta.

Therefore, as the Board is charged with the administration of the Pipeline Act, it believes it has the necessary jurisdiction, as well as responsibility, to consider the NGTL applications in a timely manner.

## **2 ISSUES**

The Board believes that the issues relevant to the applications are:

- the need for the pipelines, and
- the design and capacities of the pipelines.

## **3 NEED FOR THE PIPELINES**

### **3.1 Views of the Applicant**

NGTL submitted that the proposed facilities are part of its long-term plan for developing and expanding transportation capacity in northwestern Alberta in an economic, orderly and efficient manner as identified in its 1995/96 and 1996/97 annual plans. It noted that both CAPP and shippers on the NGTL system are aware of these facilities and no concerns had been raised by either group. NGTL submitted that its 15-year firm service receipt contract with NCL, and NCL's commitment of a \$12 million irrevocable letter of credit, which is not conditional on regulatory approval, supports the need for these facilities.

NGTL also submitted that sufficient reserves exist to support the construction of the proposed facilities. In that regard, NGTL stated that:

- $7.1 \times 10^9 \text{ m}^3$  of reserves ( $5.9 \times 10^9 \text{ m}^3$  established and  $1.2 \times 10^9 \text{ m}^3$  undiscovered) located in Alberta near and northeast of the existing NGTL Zama Lake Meter Station, support the 406.4 mm OD pipeline,
- $4.8 \times 10^9 \text{ m}^3$  of reserves ( $4.0 \times 10^9 \text{ m}^3$  established and  $0.8 \times 10^9 \text{ m}^3$  undiscovered) located in Alberta, support the 508 mm OD pipeline, and
- $7.8 \times 10^9 \text{ m}^3$  of reserves ( $5.6 \times 10^9 \text{ m}^3$  established and  $2.2 \times 10^9 \text{ m}^3$  undiscovered) located in BC, support the 273.1 mm OD pipeline.

NGTL indicated that these reserve estimates were based on independent reserve studies conducted by geological and engineering consultants. In assessing the reserves available in BC in support of the 273.1 mm OD pipeline, NGTL used the following methodology:

- reserves already connected to the WEI system and sour gas reserves were excluded,
- reserves that producers indicated were intended to be tied into the NGTL system were included, and
- remaining reserves were distributed using engineering judgement based on relative proximity to WEI's existing pipelines and the proposed NCL pipeline.

NGTL submitted that while NCL's request for service had resulted in its making applications for the facilities at this time, the facilities are also intended to eventually provide economical and efficient transportation service to handle Alberta gas as noted in its annual plans. NGTL noted that in its experience, construction of a new regional pipeline encourages drilling and generally results in significant new additional reserves. NGTL expects reserve deliverability in northwestern Alberta to increase within the next few years and believes that these facilities, when completed, will facilitate the development of those reserves. NGTL indicated that a number of its customers who have land holdings in this area of northwestern Alberta have in fact expressed interest in transportation service once the proposed facilities are constructed. Finally, NGTL indicated that the facilities are also positioned to move other BC and Northwest Territories gas, should NGTL's customers request that service in the future.

### 3.2 Views of the Interveners

WEI argued that NGTL has not proven the economic merits of the proposed facilities. It submitted that the single contract with NCL, which in turn was based on a single contract with Gulf, is insufficient to economically justify the project. WEI was also concerned about the terms of the contract between NGTL and NCL as the contract was not produced as evidence.

WEI did not challenge NGTL's estimate of reserves available in Alberta, but submitted that there are insufficient reserves in BC to support the construction of the proposed facilities. It estimated that the total established reserves in the BC area is  $5.7 \times 10^9 \text{ m}^3$ . This value includes both sour and sweet gas reserves in the area, but excludes reserves located in the Helmet Field. WEI further

stated that, of this amount, only 25 per cent or  $1.4 \times 10^9$  m<sup>3</sup> is not currently connected to its pipeline system. Therefore, WEI contended that NGTL's reserve estimate of  $5.6 \times 10^9$  m<sup>3</sup> BC gas is overstated by approximately a factor of four. WEI submitted that a lack of BC reserves is a key deficiency in the NGTL applications. It argued that, although NGTL may eventually contract for Alberta gas in the area at some time in the future, thereby lending support to the need for the facilities at that time, at the present time the facilities cannot be justified based on a single contract with Gulf for BC gas.

Gulf disagreed with WEI's position and submitted that the proposed facilities are justified and needed to enable Gulf to realize a return on its investment and to protect its correlative rights. Gulf noted that WEI did not produce any evidence to support its objection, and that it neglected to discuss the loss of economic benefits in Alberta if the proposed facilities are not constructed. NCL and NCPL submitted that they are confident that there are sufficient BC gas reserves to satisfy the 15-year firm service contract. NCL also indicated that, although it has gas reserves in the vicinity of its Zama Lake gas plant in Alberta, its ability to increase the capacity of the gas plant to process these additional gas volumes is limited because of the restrictions on the existing NGTL system. It believed that the proposed facilities would allow NCL to add facilities at Zama Lake and other locations in northern Alberta, thus allowing the orderly development of gas reserves in that area.

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

The Board accepts that the proposed facilities are an integral component of NGTL's long-term plans to provide economic and efficient transportation service to its customers. The Board notes that these facilities have been generally described in NGTL's annual plans since June 1994, the date of submission of the 1995/96 Annual Plan to the Board. Both CAPP and shippers on the NGTL system have had an earlier opportunity to review these plans and had submitted some information requests to NGTL concerning the applied-for facilities. The Board also notes that neither CAPP nor any shippers attended the hearing to raise any specific concern about these facilities arising from their reviews.

The Board is satisfied that the contract between NGTL and NCL adequately demonstrates an immediate need to commence development of the proposed facilities. The Board believes the facilities, when completed, will also enhance the long-term prospects for the economic and orderly development of gas reserves in northwestern Alberta.

The Board notes that WEI did not dispute NGTL's estimate of reserves available in Alberta. The Board believes NGTL's reserve estimates appear reasonable for this region of the province and concludes that sufficient reserves and further potential are available to justify construction of the 406.4 and 508 mm OD pipelines.

With regard to the reserves available in the BC area, the Board notes the substantial difference between NGTL's and WEI's estimates. The Board recognizes that reserve estimates can vary considerably as a result of engineering and geological subjectivity, and differences in

methodology. The Board further notes that without additional detailed information as to how each estimate was done, it would be difficult for the Board to conclude which estimate is more reasonable. The Board is cognizant of the fact that WEI and NCL are potential competitors for the transportation of the reserves in northeastern BC, and that reserves available to either company may change depending on the outcome of that competition. Notwithstanding the above, the Board believes that the firm service contract between NGTL and NCL is sufficient to indicate that there are reasonable gas reserves or potential gas reserves to justify construction of the proposed facilities.

In assessing the need for facilities such as those being proposed, the Board believes it must take into account the current and future use of those facilities in order to ensure that both the short-term and long-term public interest are being served. Therefore, the Board does not accept WEI's argument that it should not take into consideration the potential future use of the proposed facilities.

## **4 DESIGN AND CAPACITIES OF THE PIPELINES**

### **4.1 Views of the Applicant**

NGTL stated that the proposed facilities have been designed and will be operated in accordance with NGTL's standards and the Board's requirements. It submitted that its design criteria are published in its annual plans, vetted by the Facility Liaison Committee, and accepted by CAPP and shippers on the NGTL system. According to NGTL, the proposed facilities are designed to handle current contract volumes from NCL as well as future gas supplies from northwestern Alberta. The flow direction of the proposed NPS 16 crossover lateral may also be reversed within two years so that the reserves from northwestern Alberta will be transported, in part, south along the Northwest Mainline when it is completed and, in part, south along the existing Peace River Mainline. NGTL submitted that this long-term facilities plan for northwestern Alberta, including the proposed facilities, will result in a future capital cost saving of \$150 million when compared to the alternative of adding facilities to the existing Peace River Mainline.

### **4.2 Views of the Interveners**

None of the interveners raised any concern about the design and capacities of the proposed facilities.

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

The Board is aware that NGTL's design criteria historically take into consideration the input from CAPP and shippers on the NGTL system. The Board notes that these criteria are fully described in NGTL's annual plans made available to CAPP, shippers and others for comment. The annual plans are also filed with the Board each year and made available to any interested parties. The Board notes that no specific concerns about these criteria or the technical design of these proposed facilities were raised at the hearing. The Board also notes that no environmental issues

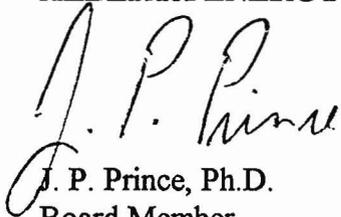
were identified either with NGTL's Conservation and Reclamation application to Alberta Environmental Protection or at the hearing. The Board is satisfied that there are no outstanding technical deficiencies or environmental concerns associated with the NGTL applications and that the proposed facilities meet all of the Board's requirements.

## 5 DECISION

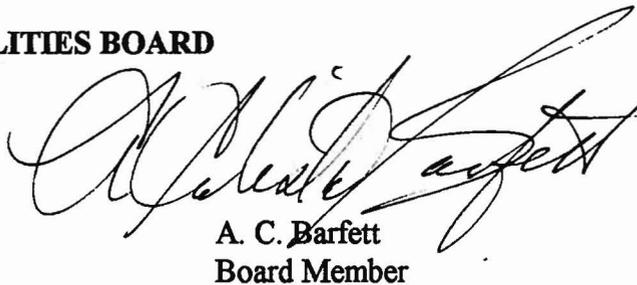
The Board has considered all of the evidence regarding the applications. The Board is satisfied that there is a need for NGTL's proposed facilities, that they meet all of the Board's regulatory requirements, and that they are in the public interest. Therefore, the Board approves the applications, and directs that the appropriate permits be issued.

DATED at Calgary, Alberta, on 4 April 1996.

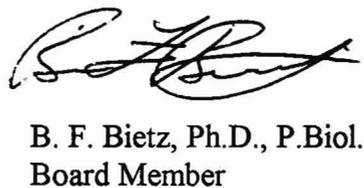
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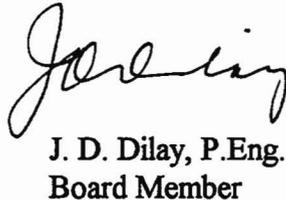
J. P. Prince, Ph.D.  
Board Member



A. C. Barfett  
Board Member



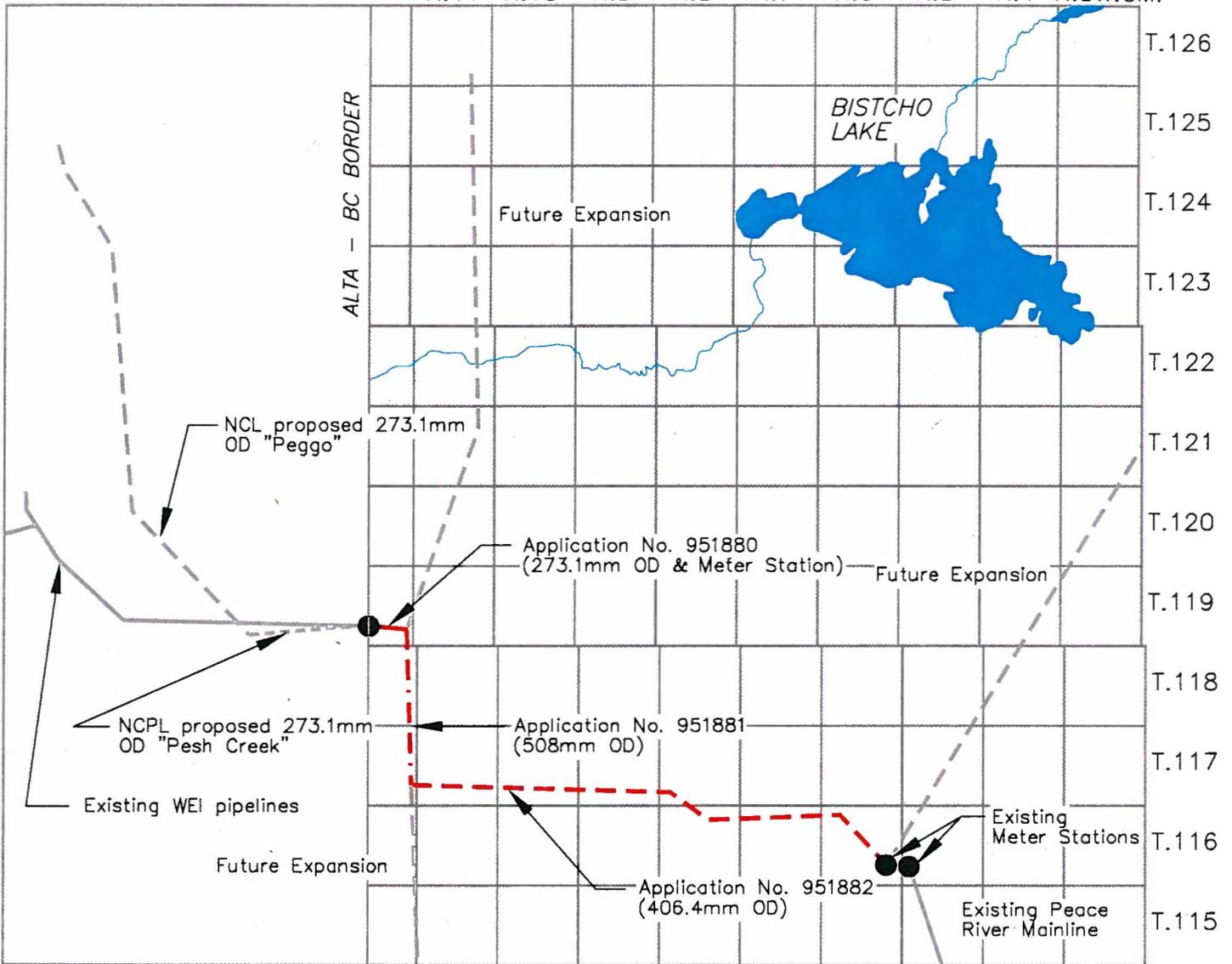
B. F. Bietz, Ph.D., P.Biol.  
Board Member



J. D. Dilay, P.Eng.  
Board Member

ALTA - NWT BORDER

R.11 R.10 R.9 R.8 R.7 R.6 R.5 R.4 R.3W.6M.



PROPOSED ZAMA/SHEKILIE PIPELINES

Applications No. 951880, 951881, and 951882  
NOVA Gas Transmission Ltd.