METROPOLITAN HALIFAX
CHAMBER OF COMMERCE
'The Voice of Business'

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Submission to the Joint Review Panel

Sable Gas Projects Review - GH-6-96

July 1997

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Introduction

The Metropolitan Halifax Chamber of Commerce ("the Chamber") is a volunteer based organization representing the interests of businesses in the greater Halifax area. Our membership includes over 1400 corporate members and over 2000 individual members. As such, we speak for a broad spectrum of businesses in the Halifax area.

A task force was formed by the Chamber to review the applications and provide recommendations on the applications which are before the Joint Review Panel in this hearing. The Chamber has monitored the hearings closely and has consulted widely both within its membership and with the various stakeholders.

We are concerned that this very important project could be lost if the Joint Review Panel is not able to find a resolution of the seemingly intractable positions taken by both the applicants and many of the intervenors. For this reason, we have attempted to develop a series of principles which we hope will assist the Joint Review Panel in reaching a prompt and sensible decision.

Summary of Principles

1. Timeliness - All acceptable proposals before the Joint Review Panel should be dealt with in a timely manner. The potential for other applications to appear should not be grounds for delay.

2. Open and Fair Access - There should be equal access to the transmission infrastructure, both offshore and onshore, for both future suppliers of natural gas and its purchasers.

3. Financially Self Supporting - The mainline should be financially self supporting. Any laterals off the mainline should also be self-supporting. There should be no subsidy from the government or from other markets serviced by the transmission system.

4. Fair Rate Structure - Those closest to the resource should pay lower transmission charges, consistent with sound economic principles.

5. Future Opportunities - Natural gas liquids offer the potential for significant industrial development in Nova Scotia. The decision of the Joint Review Panel should not preclude future exploitation of this resource.

<u>Timeliness</u>

There are presently two applications before the Joint Review Panel. The Sable Offshore Energy Project ("SOEP") has made an application for the extraction and transport to Goldsboro of natural gas from six undersea natural gas fields. The Maritimes and Northeast Pipeline ("MNP") has made an application to construct and operate a transmission line to carry natural gas from a processing plant at Goldsboro, Nova Scotia to the export point at St. Stephen, New Brunswick.

There are no other applications before the Joint Review Panel with respect to either the offshore or onshore aspects of the Sable natural gas development. The TransMaritime Pipeline Project ("TransMaritime") has indicated on several occasions, both within these proceedings and in releases to the media, that they intend to file an application with the Joint Review Panel to construct and operate a transmission pipeline from Goldsboro to the Province of Quebec, to link up with existing transmission systems.

There have been statements made by the applicants to the effect that the projects cannot or will not proceed if both applications are not approved in September 1997. The applicants suggest that there is a limited window of opportunity in which they can access the lucrative New England markets and, if that window is closed, the viability of Sable gas development will be threatened. We do not intend to challenge this suggestion, but note that the market is a large one and that other markets, including spot markets, exist which can both provide opportunities for the sale of Sable natural gas and assist the proponents in adjusting to timing issues.

The Chamber sees continuing and significant long term benefits from the development of the Sable natural gas fields, the most significant of which is a stable long term domestic source of clean burning fuel for Nova Scotians. Clearly, the potential for long term development is real and the opportunity should not be missed. The estimated life of the existing 6 gas fields which SOEP is proposing to develop is 25 years, based upon proven reserves at 3-5 trillion cubic feet. The Geographic Survey of Canada has estimated the total Sable natural gas reserves field at 18 trillion cubic feet; industry talk has suggested that reserves could be as high as 30 trillion cubic feet.

All acceptable proposals before the Joint Review Panel should be dealt with in a timely manner. The potential for other applications to appear should not be grounds for delay.

Open and Fair Access

It is fundamental to ensuring the maximum benefits from Sable gas fields that the transmission components of the projects be accessible to parties other than the applicants. While a project of 3 trillion cubic feet can obviously sustain a transmission pipeline, it is not clear that a smaller reserve will justify the same capital expenditure.

To ensure that future marginal fields can be developed on an economic basis, we urge the Joint Review Panel to recommend open access to any undersea transmission line at a reasonable toll, to permit future access by producers other than the applicants. The operators of the pipeline should be acting, in effect, as a common carrier and ought to be obliged to provide transmission services to all who seek to use them at a reasonable price.

Similar considerations should apply to the onshore natural gas plant and transmission line; in this case, equitable access should be available to customers. That is, once a customer has negotiated the purchase of the commodity (natural gas) from the producers, the transmission system, as a common carrier, must provide access at any point, including access for the purposes of constructing laterals, to the ultimate purchasers.

There should be equal access to the transmission infrastructure, both offshore and onshore, for both future suppliers of natural gas and its purchasers.

Financially Self Supporting

The tolls for the mainline and the laterals should be independent and self-sufficient. MNP has proposed an integrated regional postage stamp toll which, if approved, would provide for a single toll rate for all shippers in Nova Scotia and New Brunswick. Built into this tolling structure is an allowance for the construction of laterals.

All shippers, including export shippers, will contribute to the funding of construction of the laterals. By extension, a postage stamp toll suggests that upstream shippers (those closer to the source), by paying more than the true cost of transporting the natural gas, will be subsidizing downstream shippers who obtain a corresponding benefit.

Mr. Milne, sitting on the MNP Rate Design Panel, noted under cross-examination (at p.5107), that the true cost of providing mainline services is 52 cents. The difference of 8 cents represents support for laterals construction, of which MNP will provide $94 million towards the construction.

The tolls should reflect the true cost of the mainline, without subsidy. The decision to build a lateral should be an economic decision, reflecting the strength of the potential market.

It is our view that both the main transmission line and any laterals which may be built from the mainline should be self supporting. That is, construction of those transmission systems should not be contingent upon either direct government subsidy or direct or indirect subsidy from other markets. The ability of other markets to pay for the lateral should not be a factor. The objective should be to set and keep the mainline tolls at the lowest possible level in order to encourage the maximum efficient through put of natural gas.

The mainline should be financially self supporting. Any laterals off the mainline should also be self supporting. There should be no subsidy from the government or from other markets serviced by the transmission system.

Fair Rate Structure

Two alternative tolling mechanisms have been submitted to the Joint Review Panel. MNP, in its proposal, has requested a regional postage stamp toll of approximately 60 cents, as an integrated tolling mechanism. The toll would be applicable to all shipments of natural gas within Nova Scotia and New Brunswick. Nova Scotia Power, an intervenor, has urged the Joint Review Panel to reject the postage stamp toll being put forth by MNP and to adopt, in its place, a point to point toll. The point to point toll being suggested by Nova Scotia Power is a distance based toll which results in a lower toll to customers closer to Country Harbour.

A third option has been discussed, but little evidence put before the Joint Review Panel. The third option is zonal pricings on a provincial basis, which would result in postage stamp tolls for each of Nova Scotia and New Brunswick. The Nova Scotia toll would be lower, reflecting its closer proximity to the source. This tolling approach, which combines a distance based approach with the stability of a postage stamp structure, can provide the Joint Review Panel with the middle ground it is seeking. The Chamber endorses this third option as recognizing the economic realities of Nova Scotia's proximity to Sable Island gas.

This zonal based toll is preferable, in our view, for several reasons:

- It is fair and equitable - Those who are closest to the source of the natural gas, pay the lowest transportation charges. The farther the customer from the source, the greater the transportation charge.

- The lower price provides the originating province with a competitive advantage over other users of natural gas. This is consistent with other jurisdictions.

- Zonal tolling, as it is based on distance from the resource, sends the correct economic signal to the market. That is, you ordinarily expect to pay the lowest price for a commodity if you can buy it close to the source and minimize your transportation charges. Zonal tolling is consistent with basic business principles.

- Regional postage stamp tolling implicitly requires Nova Scotian consumers to subsidize New Brunswick consumers.

While we appreciate that a regional postage stamp toll may be desirable on the part of the supplier of infrastructure, we do not support it for the following reasons:

- The true cost of mainline service under the postage stamp toll is a maximum of 52 cents. Setting the postage stamp toll at 60 cents results in an overpricing of "mainline service" to subsidize the lateral policy being proposed by MNP. That is, customers all along the mainline, including those both in Canada and the United States, share the cost of providing laterals to the Cities of Saint John and Halifax. It is our position that other customers and markets should not be forced to subsidize lateral costs. Subsidization distorts the market and results in inefficient allocation of resources.

- There is no economic reason for denying Nova Scotia the competitive advantage of being close to the source. Indeed, there is also no compelling argument. Nova Scotians should be entitled to capitalize on the competitive advantage offered by natural gas the same way that we are entitled to capitalize on the competitive advantage of our port, our proximity to world shipping markets and our abundance of natural resources.

Recently, an alternate tolling approach has been put before the Joint Review Panel, in the form of the Joint Position on Tolling and Laterals adopted by SOEP, MNP and the Provinces of Nova Scotia and New Brunswick. The Joint Position, in effect, proposes a modified zonal toll which is phased out over 10 years. The Joint Position does not satisfy the principles we are putting forward. There should be continuous and consistent recognition of Nova Scotia's proximity to the source of natural gas in the toll methodology adopted. The Chamber does not support the Joint Position.

Those closest to the resource should pay lower transmission charges, consistent with sound economic principles.

Future Opportunities

The disposition and utilization of natural gas liquids has formed a very small part of the applications before you. However, exploitation of natural gas liquids offers tremendous opportunity to the Province of Nova Scotia. We do not want to see this opportunity lost and we would urge you to ensure that your decision does not shut the door on future opportunities. To this end, we ask that your decision not preclude the sale within Nova Scotia of natural gas liquids to processors at some point in the future. Granting a temporary or short term license to export should achieve this objective. At the same time, we believe the Province of Nova Scotia should have a leadership role in exploring alternatives and facilitating investment by the private sector to take full advantage of the opportunities made available through this resource.

Natural gas liquids offer the potential for significant industrial development in Nova Scotia. The decision of the Joint Review Panel should not preclude future exploitation of this resource.

Final Comment

In closing, we wish to urge the Joint Review Panel to consider carefully the principles being espoused by the Chamber. These are principles which we feel can and should be of value not only for the present but for future applications.

We are confident that tremendous long term benefits can be realized by Nova Scotia and Canada from the development of this tremendous resource, consistent with solid business and market principles.

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