Incremental Ethane Extraction Policy (IEEP)

Presentation to the Hydrocarbon Upgrading Task Force

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Outline

• Background
• Ethane Extraction Project (EEP)
• EEP Process
• IEEP Announcement
• Proposed Implementation Guidelines
• Next Steps
• Summary
Background

• Petrochemical industry in Alberta - adding value to natural gas liquids (NGLs)
  – Canada’s largest petrochemical producing area
  – Annual shipments over $9 billion with exports more than $5 billion
• Significant increase in ethylene capacity in 2000
• Forecast decline in ethane supply
  – Increased intra Alberta gas demand
  – Less liquids-rich gas streams
• To sustain and/or expand Alberta’s existing industry, new supplies of secure, cost competitive ethane needed
  – Significant re-investment in supply infrastructure
  – Potential petrochemical growth opportunities
EEP

• Summer 2005: Industry concerns discussed with Minister of Energy
• Minister initiates review to address concerns of the petrochemical industry: EEP
• EEP to be completed in two phases:
  – Phase 1: review of ethane supply-demand, industry economics and develop options with report to Minister December 2005 for approval to proceed
  – Phase 2: broader stakeholder consultation and discussion of proposed option with report to Minister June 2006 - DELAYED
EEP – Phase 2

• A consensus among the EEP Phase 2 stakeholders not reached

• Not unexpected due to broad, diverse interests
  – Supportive: timely and consistent with current government policies, enhances Alberta’s infrastructure, and contributes to value-added upgrading
  – Non-supportive: viewed as government intervention, level-playing field issues, and lack of implementation details
EEP – Phase 2 Extended

• At direction of Minister in June 2006, Phase 2 extended until the end of August with an independent facilitator to drive to solution (participate and be heard)

• Key assumptions:
  – There is a shortage of economic ethane in the Province to meet the needs of Alberta petrochemical producers
  – New incremental ethane supplies need to be brought on within the next 2 to 5 year period
  – “Doing nothing” not an option
EEP – Phase 2 Extended

• Facilitator report delivered August 26 with recommendations:
  – Royalty Credit option or the Fractionation Credit option (no consensus)
  – Government is encouraged to develop and articulate a policy on the upgrading of hydrocarbon resources within Alberta

• Minister selects Fractionation Credit
  – Directed to the industry adding value
IEEP Announced

- Announced September 29, 2006
- Fractionation Credit for Incremental Ethane to be issued to petrochemical companies based on consumption:
  - Used as reduction of royalty paid on natural gas and products
  - Capped at current royalties collected on extracted ethane (about $35 million per year)
- Implementation Committee (IC):
  - Established for period October to December 2006
  - Working group including 13 industry stakeholder representatives from Phase 2 participants
- Report to Minister February 28
  - Draft guidelines supported by majority of IC stakeholders
Next Steps

• Assuming acceptance by Minister:
  – Continue to work on administration details necessary for April 2007 implementation
  – Prepare draft regulations
  – Minister’s presentation package for approvals including communications plan
  – Establish the baseline
  – Determine the appropriate size of the credit
Why IEEP

• Current energy resources not being used for their best and highest value

• Key step by government for encouraging value-added:
  – Sustain existing value-added investment
  – Develop policies to support
  – Attract new investment

• Contribute to Alberta’s long-term sustainability
  – Alberta Natural Gas Hub to attract northern supply
  – Bitumen as feedstock opportunities
Questions?