

Alberta Department of Energy

BRIK Physical Transfer Point & Delivery Location

Submitted to Industry, August 19 2009

This Discussion Paper reflects high level information for the Bitumen Royalty in Kind (BRIK) program. This information may be periodically updated.

1. INTRODUCTION AND BACKGROUND

Bitumen Royalty In Kind (BRIK) places obligations on producers to deliver royalty in barrels of bitumen. A working group comprised of Alberta Energy, industry and consultants was established to evaluate the existing infrastructure (pipelines and storage tanks) for the physical delivery of blended bitumen. Industry participants included producers and pipeline operators. Two Working Groups were later combined into one due to interdependency, and the combined working group was named Bitumen Availability and Infrastructure Working Group.

The objectives of the Bitumen Availability and Infrastructure Working Group were:

- Forecast Bitumen Production and BRIK volumes;
- Identify and understand the existing infrastructure;
- Determine if the existing infrastructure can be used to deliver BRIK volumes;
- Identify any new infrastructure requirements for the delivery of BRIK volumes;
- Identify the unused capacity in the existing pipelines for the physical delivery of blended bitumen to Edmonton and Hardisty; and
- Identify the physical transfer point and determine where the Crown wants to take the delivery of the BRIK volumes.

The purpose of this paper is to address the issue of the physical transfer point and to determine where the Crown wants to take delivery of BRIK volumes.

A total of five meetings were held with industry and consultants for the Bitumen Availability and Infrastructure Working Group. Good feedback and contributions were received from both the industry and consultants.

Presently industry transports blended bitumen and manages fluctuations in blend volumes. The blended bitumen is efficiently transported from the three oil sands areas: Athabasca, Cold Lake and Peace River primarily to Edmonton and Hardisty. There are storage facilities at both Edmonton and Hardisty. There is also a pipeline with significant spare capacity to transport volumes from Edmonton to Hardisty. Normally export volumes destined for the US are transported to Hardisty as there are no pipelines to transport blended bitumen back from Hardisty to Edmonton.

2. REGULATORY CONTEXT

The design of the regulatory framework is still being discussed but it will likely be designed to accommodate several potential approaches.

Currently producers ship the Crown's share of bitumen to their sales destinations and the Crown pays for its share of transportation and diluent costs. This is operationally simple for oil sands producers and the Crown. In most cases it will be in the interests of all parties to have producers ship the Crown's share of bitumen to Edmonton or Hardisty for use by the Crown.

In cases where a producer is able to deliver to both Edmonton and Hardisty, the Crown Agent will designate the appropriate hub for delivery of BRIK volumes.

With volumes designated for export, it is also anticipated, that in some cases, at least in the early years of BRIK, it will be in the interests of both the producers and the Crown to continue to have the producer transport and sell the Crown's share of bitumen blend to existing customers. This would involve a regulatory framework that would allow producers to act as agents of the Crown.

The Crown Agent will also reserve the right to take bitumen or bitumen blend at the project Royalty Calculation Point ("RCP") and arrange for diluents and transportation as required.

The Crown acknowledges that an appropriate notice period and process will be required to inform producers as to which option is being exercised.

3. INFRASTRUCTURE IMPLICATIONS

There is no existing infrastructure to transport blended bitumen from Edmonton to the Industrial Heartland, which is the potential location for a 100,000 BPD Upgrader. This appears to be the only near term infrastructure constraint.

Industry feedback indicated that infrastructure will be built if required in response to market demands. The incremental capital cost would be transferred to customers in the form of tariffs. Information obtained from industry confirmed that there is unused pipeline capacity available to both Edmonton and Hardisty to transport blended bitumen. Details will be shown in the pipeline infrastructure document to be released in the next few weeks.

4. DELIVERY POINT CHOICE

While the regulatory regime will provide flexibility for the Crown Agent, it appears that, from the perspective of both industry and the Crown Agent, taking delivery of the BRIK volumes at Edmonton or Hardisty would provide both lower cost and lower risk. These would be the preferred physical transfer points in most cases. As discussed, the Crown Agent will still retain the right to take physical delivery of BRIK volumes at the RCP.

5. CONCLUSIONS

- Producers will be required to act on behalf of the Crown to transport BRIK volumes to the major hubs in Edmonton and Hardisty.
- The Crown should specify where the BRIK volume is to be delivered, taking into account the infrastructure limitations of the producer.
- There should be sufficient flexibility to allow producers to act as agents for the Crown to transport and sell bitumen blend volumes designated for export along with their volumes.
- The Crown should retain the option of taking physical delivery at the RCP.
- The Crown will reserve the following options for taking physical delivery at the RCP:
 - Take its share of bitumen and arrange for its own diluent and transport; and
 - Take its share of bitumen blend and arrange for transport.

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