
TO: CITY MANAGER **DATE:** 2012 September 11

FROM: DIRECTOR PLANNING AND BUILDING **FILE:** 33200 10
ACTING DIRECTOR ENGINEERING *Reference: Chevron Refinery*

**SUBJECT: CHEVRON CANADA LTD. APPLICATION FOR PRIORITY
DESTINATION DESIGNATION ON THE TRANS MOUNTAIN PIPELINE**

PURPOSE: To advise Council on Chevron Canada Ltd.'s application to the National Energy Board for Priority Destination Designation on the existing Trans Mountain Pipeline.

RECOMMENDATIONS:

1. **THAT** Council support Chevron Canada Ltd.'s application for Priority Destination Designation on the existing Trans Mountain Pipeline system.
2. **THAT** a copy of this report be submitted to the National Energy Board for filing as additional written intervenor evidence in Mayor Derek Corrigan's application for Intervenor Status at the Public Hearing.
3. **THAT** a copy of this report be sent to Mr. Jim Gable, General Manager, Chevron Canada Ltd., 355 North Willingdon Avenue, Burnaby, BC V5C 1X4.

REPORT**1.0 INTRODUCTION**

On 2012 June 18, Council received written correspondence from Mr. Jim Gable, General Manager, Chevron Canada Ltd. regarding their intention to apply to the National Energy Board (NEB) for Priority Destination Designation on the existing Trans Mountain Pipeline (TMPL) System for the Burnaby refinery. The correspondent advised that the persistent oversubscription and apportionment of capacity on the TMPL system threatens Chevron's ability to secure a reliable source of crude oil feedstock for the refinery. Under the Priority Destination Designation, however, if approved by the NEB, Chevron's shipment of crude oil feedstock to the Burnaby refinery would have priority on the pipeline system over other shipments that are not made under contract for firm service, when capacity on the pipeline system is constrained.

On 2012 August 03, the NEB issued a hearing order to commence the public input process for the above noted application. Under the issued hearing order, the public, industry, government representatives and others are able to make submissions to the hearing process. The Hearing

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date is 2013 January 13. Mayor Derek Corrigan has made an application to the NEB for Intervenor Status at the Public Hearing to formally represent the City and its constituents and in light of Burnaby's direct interest in the operation of the Chevron facilities.¹

The purpose of this report is to provide Council an overview of the Burnaby refinery and its operations, and a discussion of the general benefits of the designation.

2.0 OVERVIEW OF CHEVRON CANADA LTD. BURNABY REFINERY

2.1 Location

The historic presence of petro-chemical industries is acknowledged as part of Burnaby's geographic landscape. The Burnaby refinery, which was established in the early 1930s, is located on a 75 acre site at 5201 Penzance Drive along the Burrard Inlet foreshore (see attached Sketch #1). Surrounding the subject refinery is the Capitol Hill Conservation Area, beyond which, to the south is the Capitol Hill residential neighbourhood and further to the southwest is the Burnaby Heights neighbourhood.

2.2 Burnaby Refinery Operations

The Burnaby refinery, which has a processing capacity of approximately 57,000 bpd², refines crude petroleum to produce a range of products, including motor gasoline, diesel and jet fuels, asphalts, heating fuels, heavy fuel oils, butanes and propane. The refinery also cleans and refines the "trans-mix" that is created to provide a buffer zone between batches of different petroleum products delivered on the TMPL. Chevron notes that the ability of the Burnaby refinery to provide this service facilitates the TMPL system's ability to offer shared pipeline service and to attract and retain shippers of different petroleum products.

Chevron Canada Ltd. has advised that significant investment has been infused into the Burnaby refinery in response to evolving standards and government regulations³. Chevron also continues in efforts to provide for a more compatible relationship for the refinery in context with the surrounding community, recognizing that ongoing diligence is required to achieve improvements on a continuing basis to reduce potential impacts of this approved use in the community.

The refinery produces 30% of the total transportation fuels used in BC. With regard to BC's transportation industry, the refinery supplies 25% of the Province's diesel fuel needs and 40% of

1 An intervenor in the NEB Public Hearing Process is a person or group who wishes to formally participate in the hearing and public review process. Intervenors generally have a meaningful interest in the proposed project.

2 Barrels per day

3 From 2003-2011, Chevron made approximately \$325 million in capital investments to meet evolving standards and government regulations to produce fuels such as reformulated gasoline and low-sulfur fuels required by BC and Canadian regulations.

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the jet fuel used at the Vancouver International Airport (YVR). This supply is critical to both private and public transportation systems by land, air and water.

The refinery employs approximately 260 employees, and provides contract employment opportunities, as part of its operations in Burnaby. This employment base, as well as the related commercial, industrial and service activities generated by the refinery, is a contributing economic driver for the local, regional and provincial economy.

2.3 *Shipment of crude oil feedstock via the Trans Mountain Pipeline*

Since 1954, the Burnaby refinery has relied on the existing Trans Mountain pipeline system⁴ for the shipment/transportation of its crude oil feedstock from Alberta. This 1,150 km pipeline, which has a capacity of 48,800 m³/day (300,000 bpd), allocates the bulk (40,200 m³/day (246,000 bpd) of its capacity to land terminals and refineries, including its primary terminus at the Burnaby Mountain Terminal (7815 Shellmont Avenue). The remainder (8,600 m³/day (54,000 bpd) is allocated to the Westridge Marine Terminal for shipment to local and off-shore markets. Priority shipment of petroleum product or feedstock on the pipeline system is given to those commercial shippers which have long-term binding agreements or firm service with Kinder Morgan. The remainder is distributed to shippers without binding agreements on a monthly subscription basis.

Historically, Chevron has received all its feedstock through the TMPL on a month-to-month subscription or nomination of which the company can nominate up to a maximum capacity of 57,000 bpd on the pipeline. Since 2010, however, due to persistent oversubscription and apportionment of capacity on the pipeline, Chevron has experienced significant shortfall with respect to what is actually obtained from the nominations.⁵ The sections below discuss the issue of apportionment and its impacts on the Burnaby refinery.

3.0 CONTEXT OF CHEVRON'S APPLICATION TO THE NATIONAL ENERGY BOARD FOR PRIORITY DESTINATION DESIGNATION

3.1 *Issue*

Chevron has advised that the persistent oversubscription and apportionment of capacity on the TMPL system threatens the long-term operation of the Burnaby refinery. Chevron has responded to the apportionment by seeking to acquire feedstock for the refinery using its existing facilities and by exploring opportunities to invest in new facilities to make it possible to obtain supply from alternate sources, including by tanker truck, rail, and shipments via ports from local and overseas suppliers. Chevron, however, has advised that these options are not economically viable or sustainable in the long run. This has the potential to affect the security and stability of

⁴ The Trans Mountain Pipeline Company, which was previously a subsidiary of Terasen Inc. was acquired by Kinder Morgan in 2005.

⁵ Chevron Canada Ltd. has advised that due to apportionment Chevron's requested capacity has, at times, been reduced by 70% on the TMPL.

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the consistent supply of products from the refinery that are necessary to support related economic activities. As such, given that oversubscription and apportionment is anticipated to be recurrent and ongoing, “priority designation” on the existing TMPL is considered necessary for the continued normal operations of the Burnaby refinery.

3.2 Priority Destination Designation

The regulations for transporting petroleum through the TMPL defines **Priority Destination Designation** (Section 1.58 of Tariff 88) as follows:

“a refinery, marketing terminal or other facility connected to and capable of receiving petroleum from facilities of the carrier or those of Trans Mountain Pipeline (Puget Sound) LLC, and so designated by the National Energy Board by reason that it is not capable of being supplied economically from alternative sources.”

Under this designation, if approved by the NEB, Chevron’s shipment of crude oil feedstock to the Burnaby refinery would have priority on the pipeline system over other shipments that are not made under contract for firm service when capacity on the pipeline system is constrained. Chevron Canada Ltd. has indicated that they qualify for the designation on the basis that the Burnaby refinery is based in Burnaby, is connected to the TMPL, and they have demonstrated that there is no other economic alternative source of supply of crude oil feedstock for the Burnaby refinery.

Consideration of the Chevron Canada Ltd. application for Priority Destination Designation on the TMPL is based on the current capacity of the existing pipeline system and is not related to the Kinder Morgan proposal to expand the TMPL, for which Council has expressed opposition. It is further noted that the expansion proposal for the TMPL system would be the subject of a separate process by the NEB, to which the City will be able to make a separate submission(s).

4.0 ASSESSMENT OF THE PRIORITY DESTINATION DESIGNATION FOR THE BURNABY REFINERY

4.1 Broader Perspective

Based on staff review, from a local, regional and provincial perspective, BC has an interest in the continued, stable, and secure operation of the refinery. From an economic perspective, the benefits of the refinery include the following:

- the refinery produces petroleum products which meet the local needs of BC’s transportation industry and other commercial-industrial businesses;
- the refinery provides direct and indirect employment within the Province;
- its products are a critical service and support local, regional and provincial economic and social activities;

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- the activity has spin-off benefits with direct expenditures by Chevron of over \$70 million annually in locally supplied goods and services; and
- the refinery is a source of significant government revenue that supports delivery of services to citizens.

In view of the above, the refinery has a significant role in the economic vitality of BC at a local, regional and provincial level.

It is also noted that locally sourced petroleum products reduces the need to import petroleum refined outside of BC, and therefore also reduces demand and risks related to Provincial infrastructure, including highways, rail and port facilities that would otherwise be used to import/transport outside fuel stocks.

4.2 Local Perspective

Based on a staff review, at the local level, there are a number of benefits to Chevron Canada Ltd. achieving approval of the application to the NEB for priority destination designation on the existing TMPL, including the following:

- the long term continued operation of the refinery provides economic benefit to the local community. Chevron Canada Ltd. advises that the refinery provides approximately 260 jobs within Burnaby, with other contract employment opportunities. Petroleum products produced at the refinery supply local industry and are critical to meet local needs on a private and public level in transportation, industry, commerce and other activities;
- the stable operation of the Burnaby refinery provides a significant contribution to the City's tax-base thereby contributing to the City's economic viability; and
- a priority destination designation on the TMPL would reduce the need for crude feedstock being transported into Burnaby via tanker truck, rail or port facilities. These alternative modes of transportation pose potential diverse impacts, involving economic, environmental, traffic and emergency response considerations which would not otherwise arise with the continued shipment of feedstock via the TMPL.

These benefits from a broad and local perspective, as noted above, occur at the local, regional and provincial level. The security and reliability of supply of product to the refinery is thus directly linked to the continued delivery of these benefits. In view of the above, staff propose that Council submit a letter of comment in support for Chevron Canada Ltd.'s application to the NEB for priority destination designation on the existing TMPL. As noted, this designation application is based on the allocation of the current capacity of the pipeline system to meet local needs, and is not related to the expansion project for the TMPL for off-shore shipment of crude oil stocks, for which Council has expressed opposition.

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5.0 CONCLUSION


The Burnaby refinery has historically received their crude oil feedstock via the Trans Mountain Pipeline (TMPL) system on a month to month subscription. In recent years, due to persistent oversubscription and apportionment of capacity on the pipeline, Chevron has been exploring alternative sources to import crude feedstock into Burnaby, including via tanker truck, rail and ports to supplement supply. The situation threatens the long term economic viability of the Burnaby refinery, and the related benefits that accrue at a local, regional and provincial level from the continued security and reliability of supply to the refinery operations. As such, Chevron Canada Ltd. is seeking Priority Destination Designation on the TMPL to ensure a secure source of crude oil feedstock for the Burnaby refinery. Use of existing pipeline infrastructure would also eliminate the potential diverse impacts that could otherwise arise from transport of feedstock via tanker truck, rail and ports within Burnaby.

Based on the economic contribution of the refinery and the importance of a stable and reliable supply of product to meet local, regional and provincial needs; the historic reliance of the refinery on the existing Trans Mountain Pipeline infrastructure as a secure and viable source of crude oil feedstock to the refinery; and the ongoing contribution that would arise from a stable supply of feedstock to the refinery, it is recommended that Council support Chevron Canada Ltd.'s application for Priority Destination Designation on the existing Trans Mountain Pipeline system.

It is also recommended that a copy of this report be submitted to the National Energy Board for filing as additional written intervenor evidence in Mayor Derek Corrigan's application for Intervenor Status at the Public Hearing

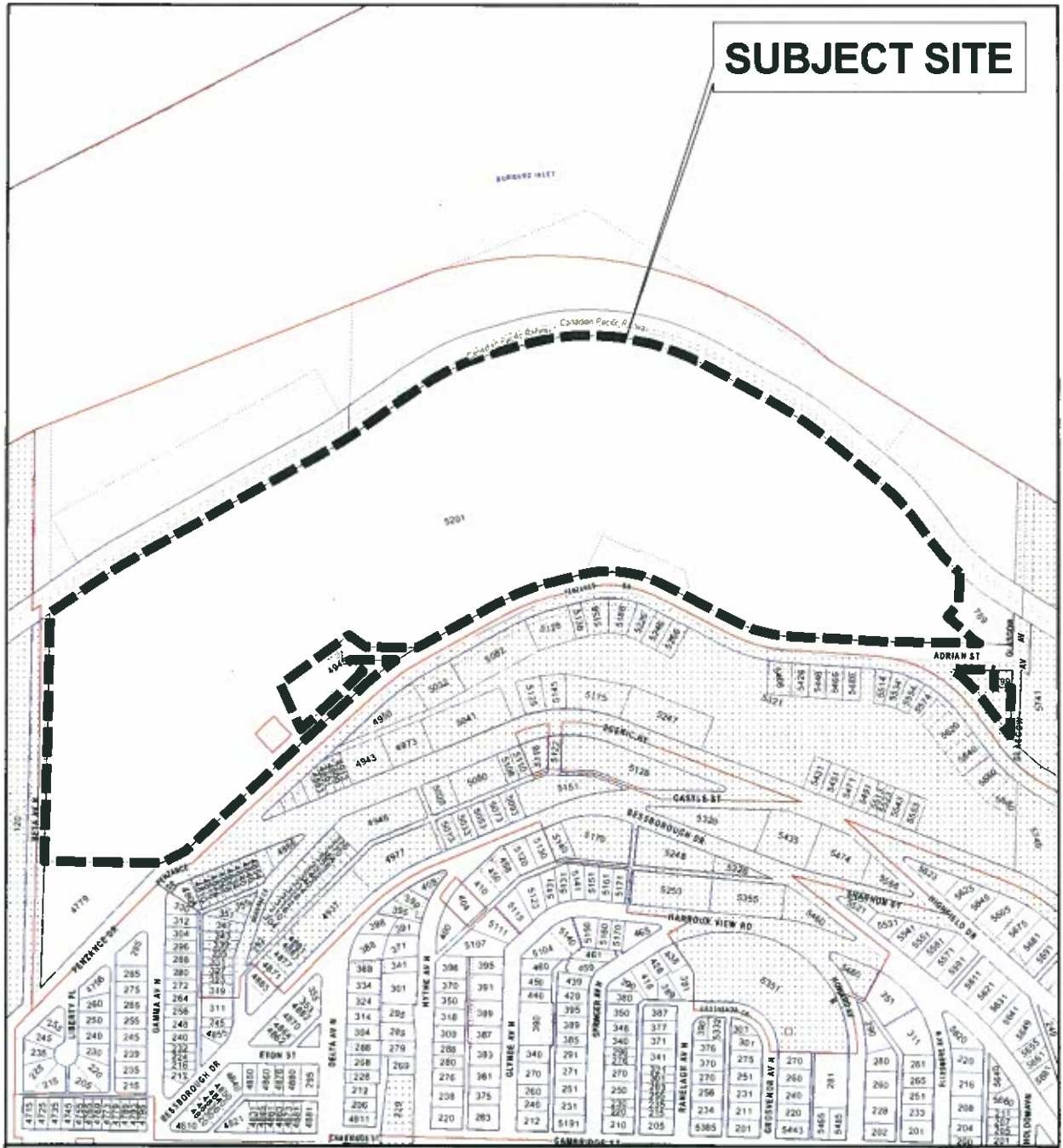
It is also recommended that a copy of this report be sent to Mr. Jim Gable, General Manager, Chevron Canada Ltd., 355 North Willingdon Avenue, Burnaby, BC V5C 1X4.


Lou Pelletier, Director
PLANNING AND BUILDING


Barry Davis, Acting Director
ENGINEERING

ZT/DD:tn
Attachments

cc: Deputy City Managers
Director Finance
City Solicitor
Acting City Clerk



SUBJECT SITE



PLANNING & BUILDING DEPARTMENT



DATE:
AUG 28 2012

SCALE:
1:7,500

DRAWN BY:
AY

5201 PENZANCE DRIVE

 Subject Site

Sketch #1