



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?

