

January 19, 2015

Mr. Robert Woodland,
Corporate Administrator,
City of Victoria
#1 Centennial Square
Victoria BC V8W 1P6

Dear Mr. Woodland,

Thank you for your letter of December 23, 2014 in which you provided me with a copy of questions that you received as part of a community engagement process held by the City of Victoria on our proposed Trans Mountain Expansion Project (Project).

I appreciate that the City has sought the feedback of its citizenry to help inform the City's involvement in the National Energy Board (NEB) process. I have provided general responses to your questions based in the headings you have provided in your letter.

Project Need

The primary purpose of the Project is to provide additional transportation capacity for crude oil from Alberta to markets in the Pacific Rim including BC, Washington State, California, and Asia. The provision of enhanced access to growing Pacific Rim markets will provide a critical alternative market for Canadian crude oil producers.

The current demand for pipeline transportation service exceeds the Trans Mountain Pipeline system capacity and has resulted in the ongoing need to apportion available capacity. This has also affected the quality of service we provide, as shippers have experienced increasing uncertainty that they will have adequate access to desired capacity on a month-to-month basis. More generally, the Project is required to provide needed flexibility for Western Canadian producers. Oil markets are continually subject to changing market conditions, refinery shut-downs, supply interruptions and other global events that impact markets. In order for Western Canadian producers to obtain access to the highest value global markets, sufficient pipeline capacity to alternative markets is required. It is markets in Asia where demand is growing and growing US production is increasingly reducing their reliance on imported crude.

Canadians are the ultimate owners of petroleum resources as represented through their provincial governments. The Canadian public is deprived of receiving the full market value for these resources when it is not possible to access the highest value end markets.

Since governments collect taxes based both on oil prices (provincial royalties) and corporate profits (provincial and federal corporate income taxes), higher revenues to producers also means



that governments will also collect considerable revenues. Should the Project proceed, it is forecasted that oil producer revenues could rise by \$45.4 billion over the first 20 years of operations, as a result of the market access provided by the Project. These oil producer revenues are expected to generate total federal and provincial fiscal benefits of \$14.7 billion.

With respect to product destinations, it is important to note that a volume of the product shipped on the pipeline today and foreseeably into the future is for use in British Columbia and North America. Indeed a significant volume of the refined product sold and consumed in Victoria and the Capital Region has been shipped by the Trans Mountain Pipeline as crude that is refined in BC and Washington, or that is shipped as refined product from Alberta and subsequently transported to the Island. While there is a need to access key markets in the Pacific Rim, local BC markets will remain an important destination for products shipped.

For impacts outside of Trans Mountain's jurisdiction or direct control, Trans Mountain believes it has a role to work with the energy industry to help address issues upstream and downstream from the pipeline. Trans Mountain is supportive of alternative and clean energy technologies if Canada is to remain a reliable, global energy provider. However, transitioning to a clean energy future takes time, financial investment and a shared commitment between government, industry and Canadians. For our part, we continue to explore new technologies we can incorporate into our own operations and we continue to be "at the table" where important regulatory and industry considerations are being developed that will shape our energy future

Export of Raw Product

The question is often asked of us whether it would be more beneficial to keep petroleum products in Canada rather than exporting them. Trans Mountain does not dictate the ultimate destination for the products we transport through our pipeline. However, as noted above, the primary purpose of the Project is to transport Alberta crude to markets along the Pacific Rim, including those outside Canada.

Canada produces more oil than it domestically needs. Not exporting this surplus of oil would mean fewer jobs for Canadians and a reduction in government revenues from the oil industry. While the prospect of refining more product within Canada seems appealing on the surface, the economics of constructing a new refinery in Canada are not favorable and refiners prefer to refine closer to end use.

Eastern Canadian refineries currently focus on refining imported lighter crude which creates a surplus of heavier Canadian crude. The choice to not export this product would result in a loss of Canadian jobs and a loss in income and economic benefits to the country.

Project Benefits

The construction and operation of the Project will provide substantial economic and fiscal benefits to Canada and its regions. There will be significant benefits to the parties directly involved, to all Western Canadian oil producers, and to all Canadians and their governments.



To estimate the economic and fiscal benefits that can be expected from the construction and operation of the Project, Trans Mountain commissioned an independent study by the Conference Board of Canada, which found among its conclusions that:

- The development (construction) period is forecasted to boost Canadian Gross Domestic Product (GDP) by approximately \$4.9 billion (in constant 2012 dollars), with \$2.8 billion accruing to BC and \$1.4 billion to Alberta. There will be a total of 58,000 person-years of employment generated across Canada during development, with approximately 36,000 in BC and 15,000 in Alberta.
- There will be \$646 million in federal taxes generated during the project development phase and an additional \$568 million of provincial taxes, with \$309 million received by BC and \$168 million by Alberta.
- There will be an overall boost to employment of 50,000 to 65,000 person-years during the first 20 years of operations, with 60 per cent of the jobs being created in BC and 20 per cent in Alberta.
- The operations phase will boost Canadian GDP by at least \$13.3 billion over the first 20 years. BC will see the largest impact with a boost of about \$8.5 billion, followed by Alberta at almost \$4 billion.
- The Project will generate about \$1.4 billion in additional tax revenues for the federal government during the operations phase and an additional \$1.1 billion in provincial taxes, with BC receiving about \$727 million and Alberta receiving about \$278 million.
- As noted above, Oil producer revenues are forecasted to rise by \$45.4 billion over the first 20 years of the pipeline's operations, as a result of higher netbacks that can be attributed to Western Canadian oil producers having access to new markets through the Project. This revenue associated with higher netbacks is expected to generate total federal and provincial fiscal benefits of \$14.7 billion.

In addition to the above, additional property taxes generated by the Project will be about \$22.1 million (a 103 per cent increase) annually in BC and \$3.2 million (a 119 per cent increase) annually in Alberta.

It can be expected that within the Capital region, there will be vendors and jobs seekers who will be looking for procurement or employment opportunities during the construction of the Project. Engagement to date on Vancouver Island has shown an interest by resident skilled trades and vendors and an interest in being made aware of potential procurement opportunities during construction. Additionally, there will be similar groups or individuals who will be looking to be involved in any associated upstream development resulting from the increased pipeline capacity to new markets.

As a result of recommendations for increased spill response capacity made by Trans Mountain in our application, there will be an investment by the Western Canadian Marine Response Corporation (WCMRC) in the Capital Regional District towards new employment and



infrastructure. This investment will be funded significantly from increased marine volume shipments at the Westridge Terminal through the Trans Mountain Pipeline. Current forecasts of the total investment toward enhanced spill response capacity in the Salish Sea by WCMRC is up to \$100 million in initial capital spending and 100 on-going full-time equivalent positions.

Project Timing

The Project is currently in the regulatory phase before the NEB. In the event the Project is approved by the NEB and necessary permits are received, construction could begin in 2016 and be in service by Q3 of 2018.

Increased Tanker Traffic Impacts on Property Value

It is not expected that Project related tanker traffic would have any impact on property values in the City of Victoria or the Capital Region. Trans Mountain has undertaken independent studies in conjunction with UBC professor Tsur Somerville that examined the impact of the pipeline on properties directly intersecting the existing Trans Mountain Pipeline System. These studies have been unable to find a material impact on property values for the directly affected properties overlaying and adjacent to the existing Trans Mountain pipeline. We believe it is therefore improbable that properties that are not directly affected by the pipeline such as properties in the City of Victoria and Capital Region would be affected. More specifically, it is not expected that going from the current five tankers per month in the Strait of Juan de Fuca to the projected 34 per month will have an impact on property values. Factoring anticipated growth in traffic in the Strait of Juan de Fuca, tankers departing Westridge Terminal will go from representing 1% of all large vessel traffic to 7% after the Project is in service.

Marine Accident and Oil Spill Prevention

Trans Mountain has loaded marine vessels with petroleum since 1956 without a single spill from tanker operations. Close collaboration and monitoring by Government organizations such as the Pacific Pilotage Authority, Transport Canada, Canadian Coast Guard and Port Metro Vancouver ensure that tankers navigate our local waters safely and are guided in and out of the port by highly-trained and qualified BC Coast Pilots. Tankers themselves are held to strict internationally accepted build, manning, maintenance and operating quality standards mandated by the International Maritime Organization and Canadian Shipping Act.

Before a nominated vessel is accepted for scheduling at the Westridge dock it must go through pre-acceptance. This ensures that all aspects of the tanker including its age, design, crew and past operating history has been properly reviewed and approved. Only double-hull tankers of modern design and construction are accepted. Additionally, the vessel must also have an agreement with WCMRC regarding spill response before they can be loaded at Westridge.

After berthing and before loading at Westridge, a Trans Mountain Loading Master, a master mariner and experienced tanker captain, conducts a physical inspection. As well, the ship is enclosed by a floating boom to provide containment in case of any possible spill during the cargo loading. The Loading Master remains onboard throughout the loading operation and oversees



the complete loading process to ensure effective procedures and communications are maintained throughout.

Transport Canada inspects tanker vessels on their first call to Westridge and annually thereafter. Canada is a signatory to international agreements that provide inspectors with records of inspections conducted in other ports by other countries.

After completing loading operations and prior to departure, two senior licensed Canadian pilots board the vessel at Westridge Terminal and they guide the navigation of the vessel through Vancouver harbor and during its transit to waters near Victoria.

In accordance with Port Metro Vancouver and the Pacific Pilotage Authority (PPA) requirements, tugs capable of controlling the tanker are tethered to the vessel as it transits the Port of Vancouver to open waters. The PPA requires that a tethered tug escort is also provided through Boundary Pass (starting near East Point) and Haro Strait (through Turn Point) through to Victoria. In our application to the NEB, Trans Mountain has proposed a number of additional precautionary and preventative measures. These also form part of Trans Mountain's submission to TERMPOL. The TERMPOL Review Committee (TRC), consisting of a number of agencies including Transport Canada, Port Metro Vancouver, Environment Canada, Canadian Coast Guard, Pacific Pilotage Authority and the BC Coast Pilots have completed their review and issued their report.

The TERMPOL process is a voluntary review that focuses on vessel safety and vessel operation in Canadian waters along the proposed shipping routes. The review examines vessel characteristics, the proposed routes, navigability, other waterway users, and the marine terminal operations associated with vessel operations. It is a technical analysis designed to assess the risks to navigation as well as public and environmental safety associated with shipping and navigation.

There are a number of key recommendations by Kinder Morgan Canada that the TRC supported, which will reduce risk and enhance situational awareness:

- Extended use of tethered and untethered tug escort from Burnaby to the mouth of the Juan de Fuca Strait;
- Extension west of the pilot disembarkation zone;
- Broadcasted radio safety calls by laden tankers when in transit;
- Guidance on communication between masters and watch keeping personnel to support strong communication between tankers and their escort tugs;
- Clear guidance to industry on enhancements to the marine safety regime that will impact their operations; and,
- An engagement and awareness strategy to promote safe navigation and interaction between Project tankers and recreational boaters, fishing vessel operators, and operators of small vessels.



The report notes in its conclusion notes that: “The existing Canadian marine laws and regulations, including international frameworks, complemented by the enhanced safety measures Trans Mountain has in place or is committed to implementing and the recommendations contained within this report will provide for safer shipping in support of the proposed Project.” Further it mentions that “the TRC does not consider the overall increase in marine traffic levels to be an issue; however, it does support additional measures to promote shared safe use of the Project’s preferred shipping route.”

Marine Spill Response and Marine Spill Clean-up

Trans Mountain works closely with Port Metro Vancouver, Transport Canada, the Canadian Coast guard, Environment Canada and WCMRC on the development and maintenance of emergency preparedness and prevention strategies for Westridge.

The regulation of marine oil spill response is contained in the Canada Shipping Act, 2001 and administered by Transport Canada. The Act defines the requirement for oil spill Response Organizations to be certified by the Minister, the requirement for all large vessels and oil handling facilities to have an arrangement with a certified Response Organization as a condition of operating in Canadian waters, and establishes planning standards that define minimum levels of capacity to be maintained by the Response Organization.

WCMRC is the Response Organization for the West Coast of Canada. Current planning standards require a minimum capacity to respond to oil spills of up to 10,000 tonnes, or about 70,000 barrels, in specified time frames which in some cases allow up to 72 hours plus travel time to deliver response equipment. WCMRC currently maintains capacity significantly in excess of the minimum planning standard requirements. With a team of well-trained professionals, WCMRC is on call 24/7 to manage oil spill response on the BC coast.

Trans Mountain acknowledges that despite the substantial measures in place to reduce the probability of an oil spill from a Project-related tanker, it is necessary to have resources and plans to minimize the effects of an oil spill, make the best efforts to control the spread of oil, and ensure that cleanup is timely and effective.

WCMRC, upon request by Trans Mountain, examined its current equipment locations and capacity, and the mandated response times against the results of a fate and behavior of crude oil on water study as well as other information such as quantitative risk studies and oceanography and metrological data conducted by marine consultants and have concluded that certain improvements could be undertaken to improve the effectiveness of its current emergency preparedness and response capacity. Among some of the proposed improvements include:

- Doubling of the current mandated spill response capacity to up to 20,000 metric tonnes
- Establish new full-time 24/7/365 response capability with new response bases along the route, focusing on areas near and around Ucluelet, Sooke, Saanich Peninsula, Nanaimo and Delta.
- Reduce maximum response times to two hours in Vancouver Harbour, and six hours at all locations along the tanker shipping route within the Salish Sea.



The TERMPOL report supports risk-based area response planning and WCMRC's efforts to increase capacity and reduce response time to ensure it is prepared to respond to a credible worst case scenario as identified by Trans Mountain. Furthermore, the TRC has written that "as part of measures to achieve a world-class tanker safety system, appropriate authorities will work with WCMRC and other stakeholders to develop and implement response plans tailored to the southern portion of BC. The plans will help to ensure the appropriate spill cleanup equipment is in place and readily available." Trans Mountain welcomes the TRC's support in this regard.

Marine Spill Liability and Compensation

Liability for a marine oil spill is defined under Canadian law within the Marine Liability Act. It is based upon the principle of "polluter pays." In effect, the source of the spill allocates responsibility. If oil were to be released directly from the Westridge Marine Terminal, Kinder Morgan would be the Responsible Party. The potential volume and dispersal of a spill originating at the terminal is low because tanker loading is a continuously staffed operation on both the land- and ship-side. Ship cargo hold integrity is constantly monitored during loading by vessel officers and independently by the Loading Master. Further, there is a relatively small amount of oil in the terminal piping at any given time and the water side of the terminal is fully surrounded by a marine containment boom whenever a vessel is at the terminal being loaded. Kinder Morgan would access the required response resources and cover the financial costs of cleaning up such a spill.

As Trans Mountain has indicated in previous responses to the NEB, Trans Mountain has access to \$750 million of General Liability Insurance which exceeds the estimated cost of a credible worst case spill of \$300 million.

If oil were released from a vessel, the vessel owner would be the Responsible Party. In addition to the ship owner's insurance, there are a variety of funding sources available to cover the costs of cleaning up such a spill. Although liability for such spills would not fall to the marine terminal owner, Kinder Morgan has established programs for vessels calling at Westridge Marine Terminal to reduce the potential for ship-source spills, as discussed above. Today, liability for compensation in the event of an at sea spill is capped at \$1.36 billion. However the Government of Canada has recently announced changes to the liability and compensation regime such that in the event of a spill, there would be unlimited compensation based on a polluter pay principle. In the event that all available sources of funds have been exhausted by spill-related claims, the Government of Canada will compensate eligible claimants and then recover those costs from the marine oil transport industry through a levy.

One should also note that there have been no large marine oil pollution incidents in Canada and changes to tanker design, construction and operating standards have further reduced the probability of such an event occurring.

**Consultation with First Nations**

Trans Mountain is working with Aboriginal communities and Aboriginal groups in a spirit of cooperation and shared responsibility; and building and sustaining effective relationships based on mutual respect and trust to achieve respective business and community objectives. Trans Mountain is engaging with Aboriginal communities and Aboriginal groups in Alberta and British Columbia to provide comprehensive information and seek feedback to identify any anticipated impacts of the Project. This proposed expansion presents an opportunity to enhance existing relationships we have with Aboriginal communities and Aboriginal groups while developing new discussions with additional communities as the engagement program progresses.

Trans Mountain has met and been in contact with a number of Douglas Treaty First Nations as well as other Aboriginal groups on Vancouver Island. Trans Mountain continues to meet with these groups to provide an open, transparent and inclusive process which seeks to exchange information in a respectful manner to address concerns shared by those who might have an interest in the Project or have Aboriginal interests potentially affected by the Project; to incorporate feedback into Project planning and execution; and, to provide Project benefits.

Again, thank you for the opportunity to respond to some of the questions you have received as part of your engagement efforts. Over the course of our own engagement on Vancouver Island and in the Capital Region, which has included meetings, open houses, online engagement, an Environmental and Socio-economic workshop and at speaking events, we have heard similar interests and concerns from the community and we will continue to consult and communicate with those in the region.

In 2012, prior to the project announcement in May that year, I had the opportunity to meet with then Mayor Dean Fortin to discuss the project and seek from him the interests of the City early in our consideration of the proposed Project. Regrettably, despite subsequent attempts by Trans Mountain to meet with the City after the project announcement, no meeting was able to be organized. In light of the election of the new Mayor, Lisa Helps, I would like to extend an invitation to meet with you and the Mayor at a time of your convenience. It would be beneficial to provide an update to the new mayor on the project and I would be interested to hear directly from you on the outcomes of your engagement activities. Our engagement team on the Island will be in contact with your office shortly to arrange a time.

Kind Regards,

KINDER MORGAN CANADA

Ian Anderson,
President