



August 11, 2011

Ms. Guyanne L. Desforbes,  
Clerk of the Standing Committee on Finance  
Standing Committee on Finance  
6-14 131 Queen Street  
House of Commons  
Ottawa, ON K1A 0A6

**Re: 2012 Pre-Budget Submission**

Dear Ms. Desforbes:

Please accept this submission as support for our request to present to the Standing Committee on Finance for the pre-budget consultations for Budget 2012 in Windsor, Toronto or Saskatoon. Encana Corporation recommends specific policy initiatives that can help meet a range of government objectives in promoting a "Canadian Natural Gas Strategy for Transportation".

**The Canadian Natural Gas Strategy for Transportation** is the logical approach for using our secure natural gas resource as an alternative transportation fuel because it is abundant, affordable, and clean. We believe there is an enormous opportunity to expand natural gas use beyond its current applications, particularly for transportation including all modes of transportation such as on/off road vehicles, marine vessels and rail locomotives. We believe this will deliver significant environmental and economic returns for Canada over the long run and meet the following key goals:

- sustainable source of government revenue;
- attraction of capital investments;
- creation of highly skilled jobs; and
- reduce Canada's environmental impact.

**Budget Objectives**

- **Sustainable Source of Government Revenue**
  - Canada has benefitted for decades from the development and use of Canada's natural gas assets. These assets are a significant contributor to both provincial and national revenues, both now and in the future.
- **Attraction of Capital investments**
  - New capital investments in infrastructure, manufacturing, and vehicle purchases will generate new economic growth, both provincially and federally. These investments are estimated to occur right across the country as the natural gas transportation market grows.

**Encana Corporation**

1800, 855 – 2 Street SW  
PO Box 2850  
Calgary, Alberta  
Canada T2P 2S5

t 403.645.2000

f 403.645.3400

[www.encana.com](http://www.encana.com)

- **Creation of Highly Skilled Jobs**

- Highly skilled jobs support the current state of natural gas extraction and use in Canada. Additional domestic job creation will occur as natural gas is deployed for transportation, power, exports and other uses in the residential domain.

Encana proposes a two year budget strategy to meet these objectives and position Canada as a leader in the deployment of natural gas for transportation.

## **1. Sustainable Source of Government Revenue**

### **i) Natural Gas Abundance – 2011**

As highlighted in Encana's pre-budget submission for 2011, the natural gas industry in North America has recently experienced resource growth that is significant and unprecedented. Over the past year, industry has continued to make major advancements in technology and huge investments in unconventional natural gas across the continent. Recent studies from the National Energy Board and the Potential gas Committee demonstrate that we have a North American supply of at least 100 years at current consumption rates. Fundamentally, this positions natural gas as a reliable, long-term fuel that can provide the basis for sustainable growth in clean transportation and electricity generation.

During 2010, Canadian oil prices have averaged approximately \$80 per barrel, and natural gas prices have averaged below \$4.00 per thousand cubic feet (or \$24 per barrel of oil on an energy equivalent basis). More abundant supplies reduce volatility in natural gas prices. That said, we believe that in the longer term, natural gas would be delivered in the range of \$4.00 to \$6.00 per thousand cubic feet; in other words, \$24.00 to \$36.00 per barrel of oil on an energy equivalent basis. Should the price of oil continue to rise in coming decades, as many industry analysts predict, energy cost savings in transportation with natural gas will be even more profound. Increasing natural gas demand will also increase more exploration and production.

### **ii) Natural Gas a Sustainable Source of Government Revenue**

Natural gas production and use generates Billions of dollars in royalty and taxation revenue for the provincial and federal governments each year. Increased domestic use of natural gas in transportation will deliver additional growth in government revenue. Over the past five years, royalty revenue has ranged between \$2 Billion and \$6 Billion per year. It is forecast that growth of 1 Bcf/d (billion cubic feet) in transportation by the year 2030 will generate an additional \$1 Billion - \$2 Billion in aggregate royalty revenue over this period. Federal and Provincial taxation revenues associated with natural gas use and development have delivered approximately \$15 Billion per year over the last three years. It is forecast that growth of 1 Bcf/d in transportation by the year 2030 will generate an additional \$11 Billion in aggregate taxation revenue.

## **2. Capital Investments related to Canadian Natural Gas**

### **i) Natural Gas for Transportation – Economic Analysis**

Encana has analyzed the cost of developing the fueling infrastructure across major transportation corridors on a very large scale, with a 20 year planning horizon. We believe that capital investors in this segment of the industry should be able to provide fuel cost savings to end-use customers in all classes of vehicles that will range between 25% and 35% percent discount as compared to diesel and gasoline.

The infrastructure component of this industry will require a sufficient size, pace of development and customer base to maintain viability. Capital deployment in this endeavor could reach several Billions of dollars over the planning horizon, with appropriate engagement from end-use customers. Currently, there is a significant hurdle posed by the incremental capital costs of new vehicles powered by natural gas as

compared to those powered by diesel or gasoline. Until a critical mass of natural gas vehicles is being produced, the cost per unit will not come down enough to trigger the large change to natural gas.

Accordingly, we recommend that the government determine the best financial measures to ensure sustainable adoption of natural gas for the transportation sector.

There are several strong policy reasons why it is in Canada's long-term strategic interest to implement fiscal measures for a natural gas transportation strategy; namely:

- (1) The transportation sector is one of the largest contributors to GHG and other emissions, and increasing the use of natural gas will deliver large reductions in these emissions. Natural gas vehicles will be an important step in compliance with the proposed (announced August 9, 2011) limitations on greenhouse gas emissions for heavy duty vehicles and engines.
- (2) It will drive economic growth and job creation. Economic studies indicate that for every bcf produced in Canada, 35,000 new upstream natural gas industry jobs are created. In addition, Encana estimates that as many as 30,000 downstream and transportation additional jobs are created throughout the country through indirect and induced activities such as the infrastructure, vehicle, and equipment manufacturing sectors.
- (3) It will lessen dependence on foreign supplies of energy in Eastern Canada and give us diversity and competition in transportation fuels across Canada.

#### **ii) Building Upon Success - Natural Gas for Transportation – 2011 Progress**

Encana, together with leaders from other industries and associations, have met with various federal and provincial government officials to educate about and advocate for the use of natural gas for transportation. Recognizing the high economic and social merit of this initiative, the responses and interest have been very favorable by all levels and political parties.

One key outcome from these advocacy efforts is the NRCan Report entitled the "Natural Gas for Transportation Deployment Roadmap" that was released in late 2010. The report recommends that further work needs to be completed in the areas of: de-risking investment and early adoption; addressing information gaps; increasing capacity to sustain markets and ensuring ongoing competitiveness.

During 2010, there have been a number of major North American projects by industry and government have been initiated that illustrate various industry and government commitments to the vision of cleaner, more affordable transportation:

- Encana has completed the installation and commenced operation of two CNG stations in Strathmore, Alberta and Fort Nelson, British Columbia to service the conversion of our fleets used in upstream operations. Additional stations are currently being planned for 2012 that will also provide public access to natural gas transportation fuel.
- Encana will be commissioning our first liquefied natural gas plant in Alberta in the fall of 2011. This facility will provide approximately 5,000 LNG gallons per day of LNG fuel for use by Western Canadian heavy duty trucking customers
- Vedder Trucking is proceeding with 50 LNG tractor-trailer units for deployment in British Columbia to service the Bulk Food Grade Industry, in partnership with Fortis BC.
- Groupe Robert Trucking is deploying 180 new LNG trucks, in partnership with Gaz Metro, who are building 3 LNG refueling stations in Quebec City and Boucherville, Quebec, and Mississauga, Ontario. The LNG will be supplied from surplus via the existing Gaz Metro's LNG plant in Montreal.
- Texas-based Heckmann Resources Corp is proceeding with deployment of 200 LNG trucks through a partnership with Encana Natural Gas Inc. The trucks will be used to service the upstream natural gas industry

These are important steps along the road to a strong natural gas foundation in transportation. Establishing this foundation more firmly however, will require a more focused effort.

## 2012 Budget Recommendations

Encana has three broad recommendations on a “*Canadian Natural Gas Strategy for Transportation*” for the Standing Committee to consider as it embarks on its 2012 pre-budget consultations.

### 1. Support a Review of Regulatory Standards Relating to Natural Gas

- Through the Standards Council of Canada and where appropriate the Regulatory Cooperation Council, conduct an extensive review in early 2012 of the Codes and Standards associated with natural gas deployment as a transportation fuel. Some examples are:
  - CSA B51-09 Part 3 Compressed Natural Gas and Hydrogen refueling station pressure piping systems and ground storage vessels – re-construct qualifying materials section.
  - CSA Z276-07 Liquefied Natural Gas (LNG) – production, storage, and handling - creation of a section in the code specific to dispensing of LNG as a fuel should be developed.
  - CSA B108-99 Natural Gas Fuelling Stations Installation – align the maximum dispensing pressure for alignment with that established for use in the United States.

### 2. Undertake A Study on the Fundamentals for a Canadian Natural Gas Strategy for Transportation

- It is recommended that this study build on the recommendations from the NRCan “Natural Gas Use in the Transportation Sector” report to guide specific future actions that can be undertaken in Budget 2013. The study should focus on key areas such as:
  - i. End user fiscal measures (fleet operators, owner-operators) that would be appropriate to incent adoption of natural gas vehicles based on what other jurisdictions have done;
  - ii. OEM requirements to produce natural gas vehicles in Canada and barriers for entry into the Canadian market by existing manufacturers of natural gas vehicles;
  - iii. Transport regulations and standards that need to be implemented for natural gas vehicles, fueling parts and infrastructure for development of natural gas vehicles adoption and deployment;
  - iv. Funding measures to assist cities to green their fleets; and
  - v. An action plan for policies to be implemented in Budget 2013.

### 3. Commit to No Taxation on Clean Transportation Fuels

- During the early growth phase of market demand for natural gas use in transportation, it is important the Government of Canada continue their leadership in the retention of no taxation levies such as fuel excise taxes and road taxes that apply to natural gas as a transportation fuel.

## 2013 Budget Recommendations

### 4. Fiscal Measures

- Implement fiscal measures that are structured to incent adopters of natural gas vehicles based upon the 2012 study. Attract OEM's to build natural gas vehicles and provide payback revenues that will be sustainable, attract significant capital investments and create jobs. The fiscal program should be implemented for 10 years to ensure a continued uptake of natural gas vehicles in Canada.

## 5. Direct Funding Program for Municipalities

- Create a funding program for greening fleets in Canadian cities to save on transportation costs, meet environmental targets and increase affordable public transportation and services.  
*Converting one refuse truck to natural gas is equivalent to removing 325 cars off the road in terms of pollution.*

### **The Benefits**

In summary, it is Encana's view that the potential benefits of greater use of natural gas for transportation would be numerous and widely distributed throughout the economy. Given the current small number of natural gas vehicles in Canada and the nominal infrastructure supporting them, even gradual increases will yield significant economic and environmental benefits. Investment and job creation in the currently depressed vehicle manufacturing industry could be expected to occur and the expansion of refueling infrastructure would be positive for every province in the nation. With every vehicle purchased or converted, verifiable emissions reductions would be guaranteed.

Encana thanks the Standing Committee on Finance for your consideration of *The Canadian Natural Gas Strategy for Transportation* and the related recommendations to ensure:

- **sustainable source of government revenues;**
- **attraction of capital investments;**
- **creation of highly skilled jobs and;**
- **reduction in Canada's environmental impact.**

Sincerely,



Eric Marsh, Executive Vice-President, Encana Corporation

cc.: The Honourable Denis Lebel, Minister of Transport, Infrastructure, and Communities  
The Honourable James Flaherty, Minister of Finance  
The Honourable Peter Kent, Minister of the Environment  
The Honourable Joe Oliver, Minister of Natural Resources  
Mr. James Rajotte, MP, Chair, Standing Committee on Finance

### **DISCLAIMER**

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