



Taxpayers on Hook for Costs of Major Spill

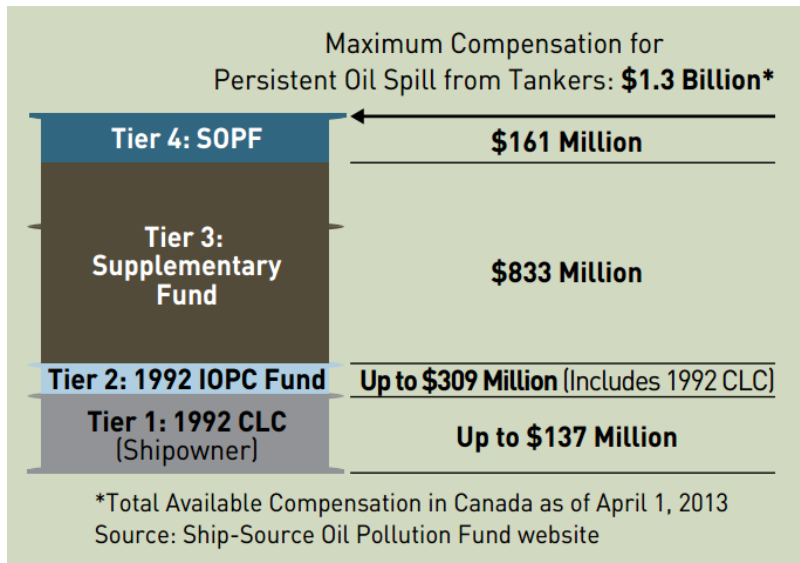
Summary

In the event of a major spill, taxpayers will have to pay for cleanup costs.

- The funds available to pay for spill cleanup are \$1.35 billion
- A large spill of diluted bitumen could easily exceed this amount
- Northern Gateway has stated several times that their financial liability ends when the tankers leave the port at Kitimat and they bear no responsibility for spills on the long and narrow route to the open ocean
- Financial responsibility for spills during tanker transit belongs to the tanker operating company. These operators are often set up as one-ship companies, where the only money in the company is the value of the ship. They are required to carry insurance to cover a spill, but they only need to carry \$150 million.
- Therefore, in the event of a major spill on the BC coast, if the cost of cleanup exceeds \$1.35 billion and the tanker company goes bankrupt, the taxpayer will have to pay for any amount above \$1.35 billion.

Spill cleanup funds are limited to \$1.35 billion

Under Canada's Marine Liability Act, a number of funding sources are available to pay for the costs of a marine spill. These include the shipowner's liability and insurance and a number of domestic and international funds that raise money from entities that receive oil transported by tanker. When added together, the total amount of money that can reasonably be expected to be available to cover cleanup and damages of a tanker spill is only \$1.35 billion. (JRP Report, volume 1, p67)



Screen capture from p30 of Transport Canada's report: A Review of Canada's Ship-Source Oil Spill Preparedness and Response Regime

In the event of a major spill, the costs of cleanup could easily exceed \$1.35 billion

In the event of a large tanker spill, the cost of cleaning up an unknown product like diluted bitumen could easily exceed the available funds. Northern Gateway uses the following estimates for the costs to cleanup spilled oil and to pay for damages from a spill.

	Cost per cubic meter	Cost per barrel
Cleanup	\$94,500	\$15,000
Damage	\$141,750	\$22,500
Total	\$236,250	\$37,500

(JRP Report, vol1 p68)

Northern Gateway acknowledges that these costs, although higher than world averages for spills of conventional crude, are lower than costs that Enbridge has incurred in trying to clean up after the Kalamazoo, Michigan spill (JRP Report, vol1, p68). This is an important point as the Michigan spill was one of the only substantial spills of diluted bitumen into an aquatic environment and is perhaps a better indication of the costs of cleaning up diluted bitumen than looking at world average data for spills of conventional crude.

Multiplying the numbers above by spill volumes provides an estimate of potential cleanup costs for spills of various sizes. It is important to remember that the percentage of spilled dilbit that would be recovered will likely be quite low, despite the substantial costs. (JRP Report, vol 2, p165)

Cost per cubic meter	Spill size (m3)	Spill size (barrels)	Cleanup and damages cost
\$ 236,250	5,000	31,500.0	\$ 1,181,250,000
\$ 236,250	10,000	63,000.0	\$ 2,362,500,000
\$ 236,250	20,000	126,000.0	\$ 4,725,000,000
\$ 236,250	50,000	315,000.0	\$ 11,812,500,000
\$ 236,250	100,000	630,000.0	\$ 23,625,000,000
\$ 236,250	300,000	1,890,000.0	\$ 70,875,000,000

According to Enbridge's risk calculations, there is a 9% chance of a 5,000 m³ spill. If their estimated cleanup costs are correct, the \$1.2 billion dollar cost is already at the limit of what the available funds can provide.

As described in our other arguments, we believe the chances of a spill and the potential cleanup costs are higher. As a result, it is not unreasonable to assume that a large spill could occur and that the costs of cleanup in excess of \$1.35 billion would need to be covered by taxpayers.

In the event of a very large spill, similar to the Exxon Valdez (41,000 to 119,000 m³ spilled), the costs could exceed \$10 billion.

A comparison to the Exxon Valdez

- For reference, the Exxon Valdez was half the size of the largest ships that will be used in Northern Gateway, and it cost \$7 billion to recover only 10% of the oil it spilled.
- Furthermore, the Exxon Valdez spilled crude oil, for which there is a large body of knowledge on the methods and costs of cleanup. There is very little practical knowledge of how to clean up diluted bitumen in a marine environment. As a result, the costs could be substantially higher and the percentage of oil recovered could be substantially lower.
- Cleanup of diluted bitumen may not even be possible in some circumstances.

Who is responsible for tanker spills?

Northern Gateway has stated several times that their financial liability ends when the tankers leave the port at Kitimat and they bear no responsibility for spills on the 460 km route to the open ocean.

"Although Northern Gateway said it would not be the responsible party for ship-source spills, it voluntarily committed to extended responsibility for marine oil spill preparedness and response."
(JRP Report, vol2, p156)

Financial responsibility for spills during tanker transit belongs to the tanker operating company. These operators are often set up as one-ship companies, where the only money in the company is the value of the ship. They are required to carry insurance to cover a spill, but they only need to carry \$150 million.

"Northern Gateway said that a tanker owner, as the responsible party, would be obligated to make use of Northern Gateway's response capabilities." (JRP Report, vol2, p157)

Therefore, in the event of a major spill on the BC coast, if the cost of cleanup exceeds \$1.35 billion and the tanker company goes bankrupt, the taxpayer will have to pay for any amount above \$1.35 billion.