

Date: May 16, 2017

To: Alberta Securities Commission
Suite 600, 250–5 Street SW
Calgary Alberta T2P 0R4

CC: Ontario Securities Commission
Canadian Securities Association

Dear Sir/Madam

This complaint relates to the Amended and Restated Preliminary Prospectus of Kinder Morgan Canada Limited's ("**the Company**") Initial Public Offering ("**the Prospectus**") announced on 10 May 2017.¹ We are concerned that the Company may have failed to provide "full, true and plain disclosure of all material facts relating to the securities issued or proposed to be distributed" as required by subsection 113(1) of the *Securities Act* (Alberta) and subsection 56(1) of the *Securities Act* (Ontario).

In our opinion:

1. the Company may have used outdated oil demand projections which could potentially mislead investors by portraying an overly optimistic view of the international oil market; and
2. the Company has failed to make adequate disclosures on the impact that climate change related risks may have on the Company's business model.

We address each of these below.

1. The Company may have used outdated oil demand projections which could potentially mislead investors by portraying an overly optimistic view of the international oil market.

Greenpeace submits that in order to present a full and true disclosure of the current outlook for international oil demand, the Company must amend their commentary on Asian demand. There are three instances in the Prospectus where the Company refers to the Asian market for crude oil producers:

- estimating that after total capital cost of approximately \$7.4 billion (including capitalized financing costs), upon completion, the Trans Mountain Expansion Project will provide western Canadian crude oil producers with an additional 590,000 barrels per day of shipping capacity and tidewater access to the western United States (most notably Washington, California and Hawaii) and global markets (most notably Asia).²
- noting that markets in Asia are collectively larger than the U.S. Gulf Coast market by approximately two million barrels per day and are forecasted to grow significantly, representing the majority of global crude demand growth (estimated to be approximately 70% from 2020 to 2040).³

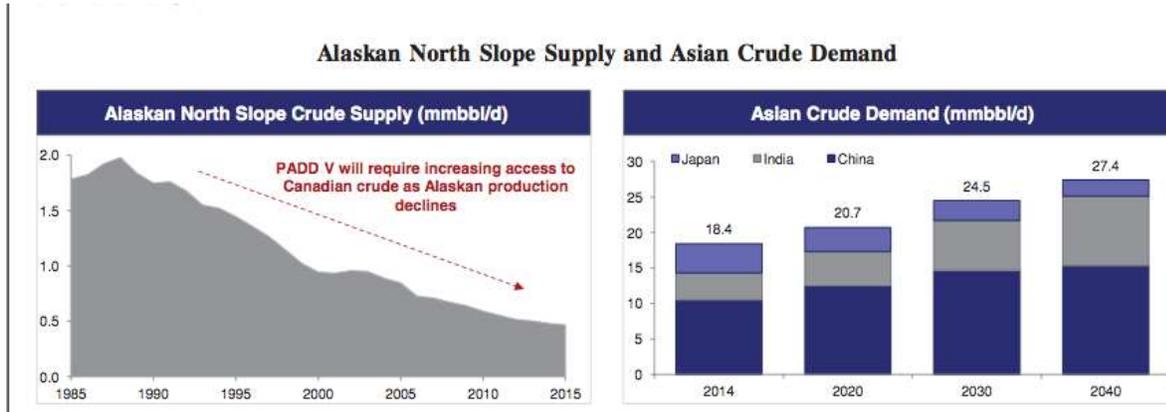
¹ 'Form 8-K: Current Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:' https://www.sec.gov/Archives/edgar/data/1506307/000110465917025465/a17-11750_18k.htm

² Amended preliminary long form prospectus ('Prospectus') , at Page 23: <http://www.investorx.ca/Doc/UPYS2CUP1DB/2017/05/10/kinder-morgan-canada-limited/amendment-to-or-amended-preliminary-long-form-prospectus-english>

³ Prospectus, page 25.

- stating that the Trans Mountain Expansion Project provides shippers the ability to sell their crude oil and refined products to global markets, including to the steadily growing demand out of Asia.⁴

The Company also refers to the following graph regarding Asian crude demand on several occasions, which shows China and India’s oil demand rising from 10.5 and 3.8 millions of barrels per day (mb/d) respectively in 2014 to 14.7 and 7.0 mb/d respectively in 2040.



To make the case for rising demand in India and China, the prospectus cites the Canadian Association of Petroleum Producers’ (“CAPP”) *2016 Crude Oil Forecast, Markets and Transportation*⁵, which in turn cites the International Energy Agency’s (IEA) *New Policies Scenario*.

Canadian Association of Petroleum Producers Forecast for Total Oil Demand in Major Asian Countries				
Millions b/d	2014	2020	2030	2040
China	10.5	12.5	14.7	15.3
India	3.8	4.8	7.0	9.8
Japan	4.1	3.4	2.8	2.3
World	90.6	95.9	99.9	103.5

Source: Table 3.6 in Canadian Association of Petroleum Producers, *2016 Crude Oil Forecast, Markets and Transportation*. This table cites IEA *World Energy Outlook 2015, New Policies Scenario*.

⁴ Prospectus, pages 21-22.

⁵ <http://www.capp.ca/publications-and-statistics/publications/284950>

Those demand forecasts are outdated. The International Energy Agency is reportedly reviewing its electric vehicle (EV) use and oil demand forecasts after India and China recently signaled new policies in favor of electric cars and vehicles using other alternatives to gasoline.⁶

We further submit that the Prospectus fails to accurately set out the true demand in Asian markets on the following grounds:

1.1 Chinese oil demand projections

Figures provided in the CAPP report differ markedly from those issued by the China National Petroleum Corporation Economics & Technology Research Institute (“CNPC”), which is the in-house research arm of the state-owned oil company responsible for informing long-term strategy development. The CNPC’s report entitled *2050 World and China Energy Outlook* published in 2016, is considered to be the most up-to-date and authoritative source on oil demand projections produced in China.

The CNPC states as its base scenario will peak in 10 years and then decline:

“China’s oil consumption will grow to about 670 million tonnes in 2027 from 520 million tonnes in 2014, with an average annual increase of 2.0%. In 2027-2035, consumption continues to remain high. After 2035, oil products consumption will begin to decline rapidly due to the continuously improved fuel economy, and accelerated popularization of alternative fuel and electric vehicles. By 2050, oil consumption will drop to about 500 million tonnes.”⁷

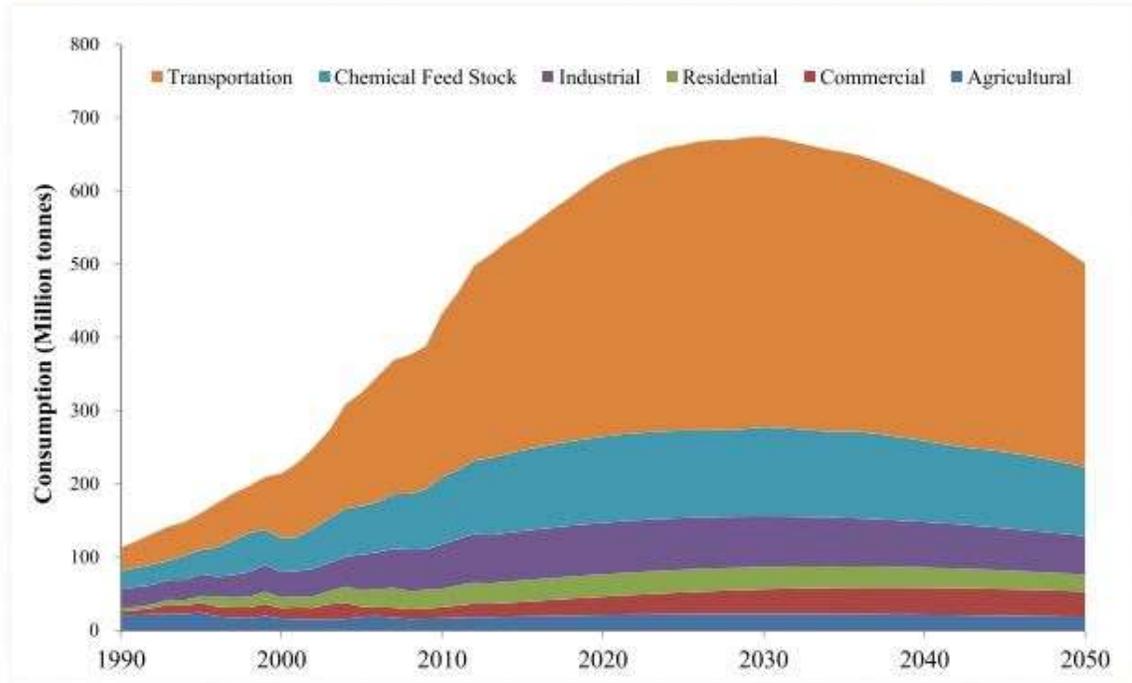
This is reflected in the following graph, extracted from the CNPC’s *2050 World and China Energy Outlook* report.

⁶ <http://www.reuters.com/article/us-oil-demand-ia-exclusive-idUSKBN18809U>

⁷ China National Petroleum Corporation's (CNPC) Economics & Technology Research Institute, *2050 World and China Energy Outlook*, (page 37)
<http://etri.cnpc.com.cn/etri/qydt/201607/0d251da8cfef4c569aee255899d9a037/files/c5935279e59e4c2e90f44d915691f674.pdf>



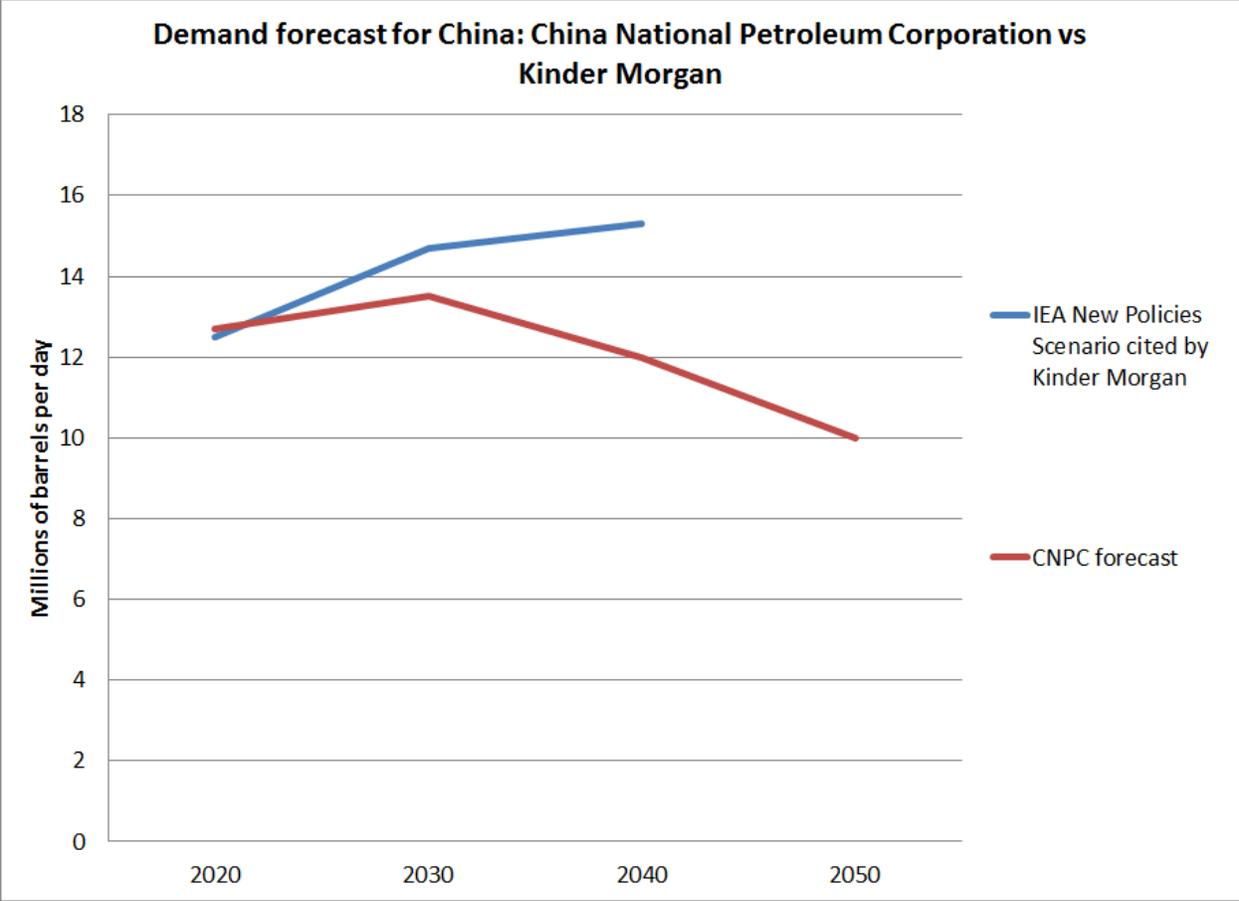
Oil demand in China will peak around 2030



Energy Outlook 2050

Thus, the CNPC's base scenario forecasts that Chinese oil demand will peak in 2027 670 million tonnes (13.5 million barrels per day) and fall to under 500 million tonnes (10 mbpd) in 2050. This is significantly lower than the IEA forecast that the Company relies upon, as shown in the table and graph below.

Forecast for oil demand in China (mbpd)				
	2020	2030	2040	2050
IEA New Policies Scenario	12.5	14.7	15.3	n/a
CNPC forecast	12.7	13.5	12.0	10.0



Further, the CNPC report also includes a “strong constraints” scenario, where China and the world reduce fossil fuel consumption in line with what is required to keep global warming below 2 degrees Celsius. In this scenario, China’s oil consumption peaks at 590 million tonnes (11.8 mb/d) in 2022 and falls to 180 million tonnes (3.6 mb/d) in 2050, which is 65% lower than the current level.⁸

1.2 Transportation Sector Decarbonization Targets in Key Markets

In its demand projections, the Prospectus fails to address decarbonization targets in the transportation sector in India, China, and California, among other global markets. Aggressive decarbonisation targets in the transportation sector in these three jurisdictions are indicative of global decarbonization trends that will directly impact on the demand profile for crude oil. The transportation sector is a central focus for all of the countries and sub-national stakeholders acting to meet Paris Agreement targets on the phase out of hydrocarbon-based energy. This material risk is not mentioned in the Prospectus.⁹

⁸ China National Petroleum Corporation's (CNPC) Economics & Technology Research Institute, *2050 World and China Energy Outlook*, (page 93).

⁹ Bloomberg (25 02 2017) ‘Here’s How Electric Cars Will Cause the Next Oil Crisis: a shift is under way that will lead to widespread adoption of EVs in the next decade.’ <https://www.bloomberg.com/features/2016-ev-oil-crisis/>

In China, draft rules could require as much as 8 per cent of international automotive company sales in China to be electric vehicles as early as 2018.¹⁰ These rules are linked to China's 13th five-year plan (2016-2020) which targets cumulative sales of electric vehicles to reach more than 5m by 2020. Similarly, India has indicated a target to transition its automotive fleet to be all electric by 2030¹¹ and the US State of California target aims to have 1.5 million zero-emission vehicles (ZEVs) on the road by 2025.¹²

These three case studies indicate the extent of business risks linked to transport and energy system decarbonization in key markets, and the potential for demand destruction in the transportation sector in particular. The precise nature or quantum of the business risk linked to demand destruction in the transportation sector is not certain, however this risk is too significant to go unmentioned in the Prospectus.

1.3 Modelling Oil Price Risk

We believe low oil-price scenarios linked to demand stagnation and the growth of alternative energy sources are not reflected in the demand modelling referred to in the Prospectus. The Prospectus relies heavily on the CAPP 2016 Crude Oil Forecast, Markets and Transportation 2016-0007 for supply growth projections in the Western Canadian Sedimentary Basin.¹³ Based on CAPP's supply projects, the Prospectus states that

“Canadian crude production forecasts suggest a shortage in pipeline takeaway capacity through 2020, largely driven by oil sands growth.”¹⁴

CAPP is an industry association whose supply growth pricing predictions differ significantly from their international peers yet the Prospectus does not seek to refer to other growth pricing predictions for cross-validation, such as the IEA's 450 scenarios for energy demand growth for example, or other projections of which investors should be aware.¹⁵

1.4 Discounted price of Canadian oil sands Western Canadian Select

In addition, we believe the Prospectus fails to make clear to investors the potential of the discounted pricing for Western Canadian Select (WCS) oil on project economics. West Texas Intermediate (WTI) oil prices, the North American reference price, averaged US\$49.67 a barrel in March 2017. Western Canada Select (WCS), the price obtained for Alberta heavy oil producers, averaged US\$35.68 a barrel in March

¹⁰ 'Carmakers grapple with China's electric vehicle drive' (30 04 2017): <https://www.ft.com/content/efcb27d8-2991-11e7-9ec8-168383da43b7>

¹¹ 'India aims to become 100% e-vehicle nation by 2030: Piyush Goyal' (26 03 2016): <http://economictimes.indiatimes.com/news/industry/auto/news/industry/india-aims-to-become-100-e-vehicle-nation-by-2030-piyush-goyal/articleshow/51551706.cms>

¹² <https://www.arb.ca.gov/cc/cc.htm>

¹³ Preliminary Prospectus, at 21. See '2016 CAPP Crude Oil Forecast, Markets & Transportation': <http://www.capp.ca/publications-and-statistics/publications/284950>

¹⁴ At 20.

¹⁵ Royal Dutch Shell suggests peak global oil demand and production could occur by the late-2020s, while Statoil believes it could be between the mid-2020s and the late-2030s. See 'Shell: Peak Oil Demand Could Be Reached In 2021:' <http://oilprice.com/Latest-Energy-News/World-News/Shell-Peak-Oil-Demand-Could-Be-Reached-In-2021.html>; Statoil 'Energy Perspectives': <https://www.statoil.com/en/how-and-why/sustainability/energy-perspectives.html>

2017. The price differential of WTI over WCS was US\$13.99 in March 2017.¹⁶ The WTI-WCS price differential is material to the business when the 2020 Trans Mountain Expansion Project project is modelled with tolls of US\$4 to US\$6 per barrel.¹⁷ At the WCS discount price, the Company could struggle to meet revenue projections for the expanded pipeline under persistent softening of the oil price and long-term demand contraction in line with IEA projections.

2. The Company has failed to make adequate disclosures on the impact of climate change-related risks to the Company's business model.

Greenpeace further submits that in our opinion, the Company has failed to comply with its legal obligations by failing to make adequate disclosures in its Prospectus about climate change related financial risks to the Company's business model.

The inadequate disclosure of climate risk is recognized as a significant threat to the global economy by the Financial Stability Board¹⁸ and the Bank of Canada.¹⁹ In addition, the Canadian Securities Administrators (CSA) is currently reviewing the disclosure of risks and financial impacts associated with climate change, building on the December 2016 recommendations put forward by the Financial Stability Board's Task Force on Climate-related Financial Disclosures.²⁰ Those recommendations include the use of a scenario where warming is kept under 2 degrees Celsius, as is evident from the following extract from the December 2016 *Recommendations of the Task Force on Climate-related Financial Disclosures*:

“One of the Task Force's key recommended disclosures is related to the disclosure of potential impacts of climate-related risks and opportunities on an organization's businesses, strategies, and financial planning under different potential future states (scenarios), including a 2° Celsius scenario. Disclosure of how organizations analyze different climate-related scenarios and the considerations associated with the individual scenarios is a key step to better understanding the potential financial implications of climate change on an organization.”²¹

In its technical supplement *The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities*, the Task Force identifies a number of possible scenarios (including Greenpeace's *Advanced Energy Revolution*) but notes that at the global level, “the most well-known, widely used and reviewed scenarios for the transition to a low carbon economy are those prepared by the IEA.”²²

The Company's disclosure with respect to climate-related financial risks is inadequate because the market analysis selectively relies on IEA's 'New Policies Scenario', and excludes from its discussion IEA's '450 Scenario' and the IEA's 66% Scenario.

By way of context, prior to 2017, the IEA produced a range of climate change scenarios, including:

¹⁶ <http://economicdashboard.alberta.ca/OilPrice>

¹⁷

¹⁸ <https://www.fsb-tcfd.org/publications/recommendations-report/>

¹⁹ <http://www.bankofcanada.ca/2017/03/thermometer-rising-climate-change-canada-economic-future/>

²⁰ <http://www.newswire.ca/news-releases/canadian-securities-regulators-announce-climate-change-disclosure-review-project-616735234.html>

²¹ <https://www.fsb-tcfd.org/wp-content/uploads/2016/12/TCFD-Recommendations-Report-A4-14-Dec-2016.pdf>

(p. 1)

²² <https://www.fsb-tcfd.org/wp-content/uploads/2016/11/TCFD-Technical-Supplement-A4-14-Dec-2016.pdf> (p.

14).

New Policies Scenario of the World Energy Outlook broadly serves as the IEA baseline scenario. It takes account of broad policy commitments and plans that have been announced by countries, including national pledges to reduce greenhouse-gas emissions and plans to phase out fossil-energy subsidies, even if the measures to implement these commitments have yet to be identified or announced.

450 Scenario sets out an energy pathway consistent with the goal of limiting the global increase in temperature to 2°C by limiting concentration of greenhouse gases in the atmosphere to around 450 parts per million of CO₂.²³

The 450 Scenario, however, offered only a 50% chance of keeping warming below 2°C and hence was inconsistent with the aim of the Paris climate agreement, which is “Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change.”²⁴

Therefore, the German government asked the IEA to work jointly with the International Renewable Energy Agency to shed light on the essential elements of an energy sector transition that would be consistent with limiting the rise in global temperature to this level. This resulted in an additional scenario²⁵ being published in 2017, called the 66 percent scenario because it was deemed to have a 66 percent chance of keeping warming below 2°C.

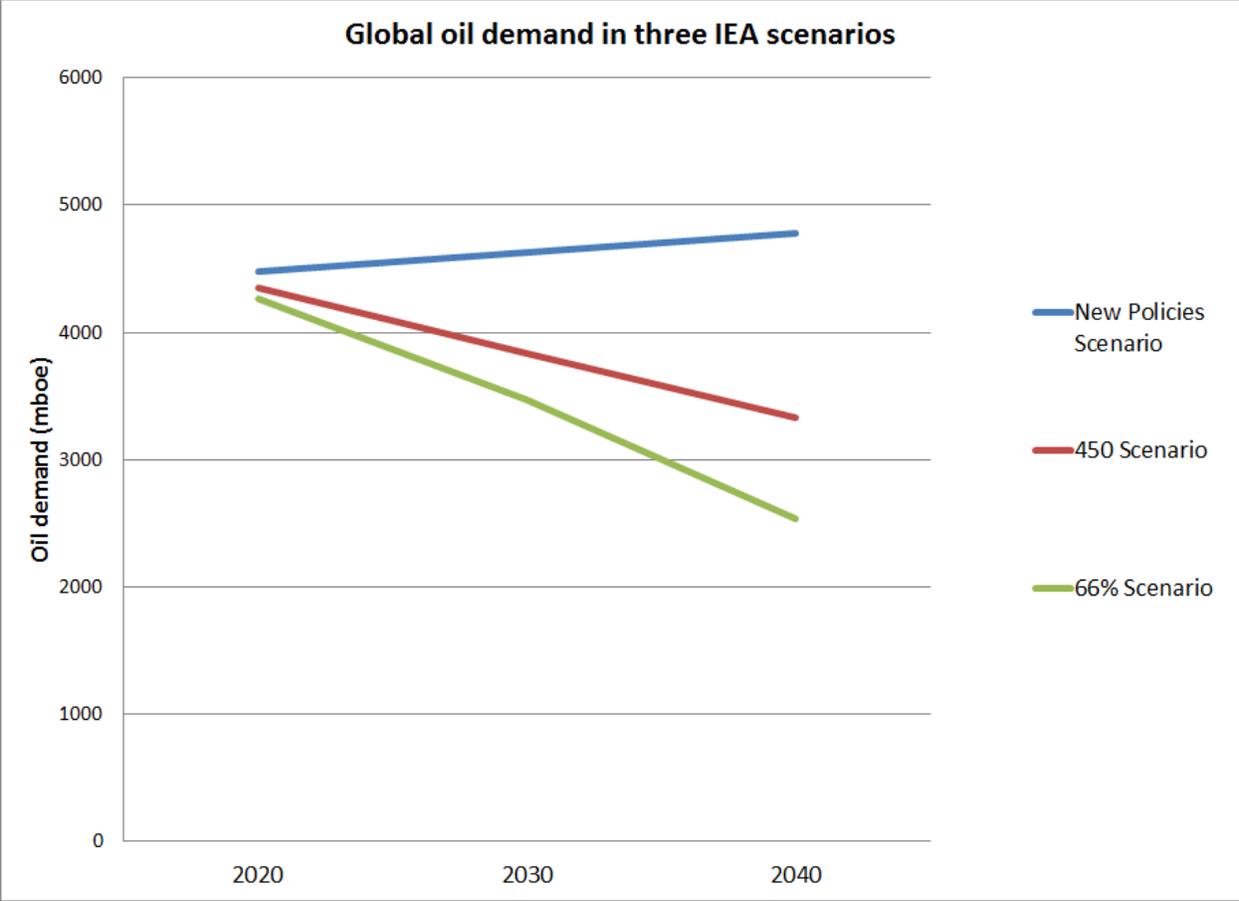
Each of these scenarios has a forecast for global oil demand, shown in the table and graph below.

Global oil demand (million of tonnes of oil equivalent)			
	2020	2030	2040
New Policies Scenario (used by the Company in its prospectus)	4474	4630	4775
IEA 450 Scenario (50% chance of keeping warming below 2°C)	4345	3833	3326
66% Scenario (66% chance of keeping warming below 2°C)	4260	3474	2534
Source: International Energy Agency			

²³ <https://www.iea.org/publications/scenariosandprojections/>

²⁴ https://unfccc.int/files/meetings/paris_nov_2015/application/pdf/paris_agreement_english_.pdf

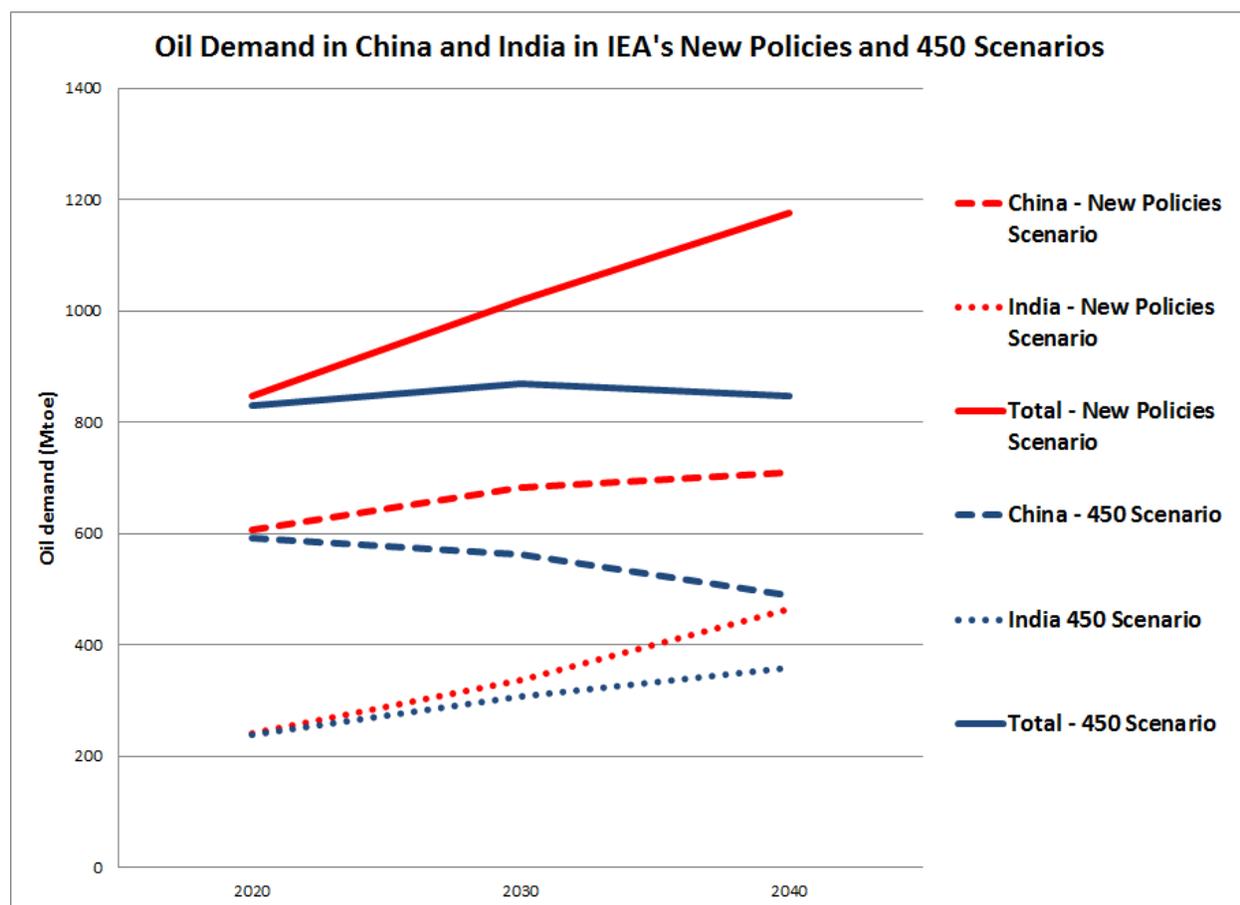
²⁵ http://www.irena.org/DocumentDownloads/Publications/Perspectives_for_the_Energy_Transition_2017.pdf



The IEA's 66% scenario does not include national-level demand forecasts, but the New Policies and 450 Scenarios do include forecasts for oil demand in India and China. In the 450 Scenario, the demand for oil in these markets is stagnant, and ultimately 28% lower in 2040 than in the New Policies Scenario.

Territory (millions of barrels of oil)	2020	2030	2040
China - New Policies Scenario	606	682	710
India - New Policies Scenario	241	337	465
Total for China and India - New Policies Scenario	847	1019	1175
China - 450 Scenario	591	562	488
India - 450 Scenario	239	308	360

Total for China and India - 450 Scenario	830	870	848
Source: IEA, World Energy Outlook 2016			



By failing to reference either the 450 Scenario or the 66% Scenario, the Prospectus fails to present the IEA's alternative market forecasts notwithstanding that their predictions represent a significant risk to the Company's business model. In contrast, Suncor Energy Inc. ("**Suncor**"), which is one of the prospective shippers on the Trans Mountain Expansion Project and is the largest oil sands producer in the world, recently published an assessment of corporate climate risk that explored "three long-term energy futures scenarios, all of which are equally plausible and will affect our operating environment and business strategy in markedly different ways."²⁶

In its "autonomy" scenario (that Suncor says best represents the technology and policy context consistent with the IEA's 450 Scenario), Suncor found there was no business case for new oil sands projects or pipelines. In this scenario:

²⁶ Suncor's Climate Report: Resilience Through Strategy. <http://www.suncor.com/newsroom/news-releases/2138160>

- the demand for oil drops and oil prices stay low as “renewable power generation fuels a largely electrified system” and “breakthrough battery technology supports growth in electric vehicles”;
- “New oil sands growth projects are challenged and unlikely to proceed”; and
- “No new export pipelines are built out of the Athabasca Oil Sands region.” (p. 9)

Thus, despite containing broad comments regarding climate change, the Prospectus does not adequately disclose the Company’s exposure to climate risk under the IEA scenarios where more meaningful action on climate change is taken in the future. This is so even though as one of North America’s leading oil and gas exploration and development companies, the Company is materially exposed to the risks associated with climate change. These could include:

- transition risks: i.e., the business and financial risks associated with the adjustment of the world economy from high carbon intensity to much lower carbon intensity over the coming years;
- business risks: i.e., increased operating costs, increased capital costs, the potential for assets (e.g. exploration licences, oil and gas reserves, or infrastructure required to develop those reserves) to become 'stranded', reputational damage and/or a reduced market valuation; and
- physical risks: i.e., the risk of the physical impacts of climate change (extreme weather, sea level rises, water scarcity) damaging the economic value in the business.

In light of the deficiencies in the Prospectus as identified herein, we therefore ask that the Commission review the Company’s impending issue and consider halting their attempt at capital raising until such time that the Prospectus adequately discloses all material information to potential shareholders as per statutory requirement. This is critical as full, true, and plain disclosure of climate related business risks in the Prospectus is essential in order to protect investors in an IPO process, and to demonstrate responsive capital market regulation in the face of a globally significant market transition away from hydrocarbons.

Should you require any further briefing on climate risk scenario planning and international oil demand projections, we would be pleased to arrange a meeting.

Sincerely



Keith Stewart, Ph.D.
Senior Energy Strategist
Greenpeace Canada
kstewart@greenpeace.org
416-659-0294