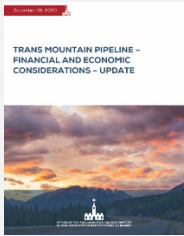




OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

PBO's response to questions raised during the parliamentary briefing



Trans Mountain Pipeline – Financial and Economic Considerations – Update

In January 2019, PBO released a report assessing the Government of Canada's 2018 decision to acquire, expand, operate, and eventually divest of the Trans Mountain Pipeline system.

This report provides an updated financial valuation of the purchased assets, estimates the valuation's sensitivity to several key factors, and projects the economic impact of the Expansion Project's construction activities.

The purpose of this note is to respond to two follow-up questions raised during the parliamentarians' briefing on PBO's report titled, [Trans Mountain Pipeline – Financial and Economic Considerations – Update](#).

In what year does PBO expect the Trans Mountain Pipeline system to have a positive Net Present Value (NPV) in its reference case?

Based on the assumptions made in its reference case, PBO estimates a positive NPV of \$600 million for the Trans Mountain Pipeline system. In this scenario, the cumulative value of Trans Mountain's discounted cash flows since the acquisition is positive in 2056 and beyond.

What would be the impact on the value of the Trans Mountain Pipeline system if the construction of the Trans Mountain Expansion Pipeline (TMEP) is stopped and TMEP is cancelled indefinitely?

In responding to this alternative scenario, it is not intended to indicate that it is what PBO deems most likely. It is solely to respond to the specific scenario requested by a parliamentarian.

Under this scenario, PBO assumes that construction on the Expansion Pipeline will stop at the end of 2020. Only the base pipeline and existing assets continue to operate.

If the construction of TMEP is halted and the expansion project is cancelled indefinitely, PBO estimates that the Government may need to write off assets worth \$5.9 billion. This includes sunk costs in capital expenditures for the expansion pipeline, as well as the portion of the goodwill related to the Expansion Project (Table 1-1).

Table 1-1: If TMEP is cancelled, the Government may face a significant asset write-off

Up to 31 December 2020:

TMEP Capital Expenditure ⁱ	\$5.4 billion
TMEP Goodwill ⁱⁱ	\$0.4 billion

Total	\$5.9 billion
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(NUMBERS MAY NOT ADD DUE TO ROUNDING)

It should be noted that these figures exclude potentially significant revenues (e.g., salvage value) and costs (e.g., severance payments, rehabilitation and wind down costs) that would be associated with the cancellation of TMEP. However, these additional revenues and costs will have a financial impact to the Government.

ⁱ PBO calculations based on data provided by the Canada Development Investment Corporation (CDEV). Capital expenditure includes Allowance for Funds Used During Construction (AFUDC) Interest used During Construction.

ⁱⁱ Refers to the goodwill arising from the acquisition of the Trans Mountain assets that “relates to expected economic benefits associated with the completion of the Trans Mountain Expansion Project, including the direct economic benefits that the completion of the TMEP creates for the existing pipeline system, and the assumption of a decommissioning obligation.” PBO calculations based on CDEV’s 2019 Annual Report. Available at https://www.cdev.gc.ca/wp-content/uploads/2020/05/CDEV-2019_Final-Art_English_03.31.2020_2.pdf.