LETTER DECISION

File OF-EI-Gas-GL-G417-2014-01 01
27 August 2015

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Dear Mr. Gagnon, Mr. Smith and Mr. Dixon:

GNL Québec Inc.
27 October 2014 Application for a Licence to Export Gas as Liquefied Natural Gas
National Energy Board Reasons for Decision

On 27 October 2014[1], GNL Québec Inc. (GNL Québec or Applicant) applied to the National Energy Board (NEB or Board) pursuant to section 117 of the *National Energy Board Act* (NEB Act) for a licence (Licence) to export gas (Application), in the form of liquefied natural gas (LNG). GNL Québec seeks:

- a 25-year Licence, starting on the date of first export;
- a 15 per cent annual tolerance, with a maximum annual export quantity of 12.65 million tonnes of LNG or 653.78 billion cubic feet (Bcf),[2] which corresponds to a natural gas equivalent of 18.52 billion cubic metres (10^9m^3);
- a maximum term quantity of 313.09 million tonnes of LNG, which corresponds to a natural gas equivalent of 458.34 10^9m^3 (16,180 Bcf) over the term of the Licence;
- the point of export to be the outlet of the loading arm of the natural gas liquefaction facility to be located at the port of Saguenay, also called the port of Grande-Anse in La Baie, Québec, Canada; and,
- an expiration clause where, unless otherwise authorized by the Board, the Licence will expire ten years from the date of Governor-in-Council approval of the issuance of the Licence, if exports have not commenced on or before that date.

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[1] The Applicant also filed an amendment to its French Application on 4 November 2015 to correct several minor inaccuracies. The amendment documents can be found on the National Energy Board website here.
[2] Applied-for quantity is adjusted for ramp-up schedule and includes 15 per cent tolerance.

Summary of Public Notice, Comment Period and Information Requests

On 17 April 2015, as directed by the Board, GNL Québec published a Notice of Application and Comment Period (Notice) for impacted persons in both the *Globe and Mail* and *La Presse*. In addition and on its own accord, on 17 April 2015, GNL Québec also published the Notice in *Le Quotidien*, a local newspaper servicing the area in and around the proposed location of the Applicant's export terminal. The Notice requested that any impacted person who wished to file submissions related to the Surplus Criterion[3] set out in Section 118 of the NEB Act do so by 19 May 2015, providing GNL Québec with the opportunity to respond by 27 May 2015.

The Board received one submission from the *Collectif de l'Anse à Pelletier*.

The Board issued three Information Requests (IRs) to GNL Québec, on 9 March 2015, 27 April 2015 and 28 July 2015. GNL Québec filed its responses on 12 March 2015, 8 May 2015 and 31 July 2015, respectively.

Surplus Determination

GNL Québec submitted that, as required by the Surplus Criterion, the quantity of gas it seeks to export does not exceed the surplus remaining after due allowance has been made for the reasonably foreseeable requirements for use in Canada, having regards to the trends in the discovery of gas in Canada. In support of this submission, GNL Québec submitted the following studies: (1) *Natural Gas Supply and Demand Market Assessment* by Navigant Consulting Inc. (Navigant), and (2) *Export Impact Assessment* by Gordon Pickering (Mr. Pickering).

Navigant stated that both the Canadian and the North American natural gas markets are abundant, integrated and robust, and are characterized by ample, stable supplies. Navigant indicated that the magnitude of Canadian natural gas resources is sufficient to support GNL Québec's proposed exports as well as a much larger level of exports, should they develop. Mr. Pickering observed that the North American gas market is well-functioning and is considered the largest and most sophisticated gas market in the world and it has shown reliable performance over a variety of circumstances and market changes. Even if all the quantities from the approved export licences are exported, Navigant estimates that there would be over 100 years of Canadian recoverable resources available. Mr. Pickering concluded that GNL Québec's proposed export volumes are highly unlikely to cause Canadians difficulty in meeting their gas requirements.

[3] Section 118 of the NEB Act states: "On an application for a licence to export oil or gas, the Board shall satisfy itself that the quantity of oil or gas to be exported does not exceed the surplus remaining after due allowance has been made for the reasonably foreseeable requirements for use in Canada, having regard to the trends in the discovery of oil or gas in Canada."

Navigant stated that resource development will be incented according to the economics of North American supply and demand factors. Navigant stated that additional base load natural gas demand, represented by LNG exports, would increase the size of the gas market, which will foster further development of shale gas resources and lead to continuing decreases in market volatility due to decreased production risk associated with shale gas. Navigant also stated that Eastern Canadian imports from the United States (U.S.) will lessen competitive demand for Western Canadian natural gas supplies, thereby enhancing Western Canadian supply availability for GNL Québec's exports. Navigant submitted that the pipeline flows between Canada and the U.S., and the ability of North American natural gas supply and demand to balance efficiently and effectively indicate there is an interconnected, competitive and functional nature to the North American natural gas market. Navigant increased its forecasted Canadian natural gas demand growth rate by 20 per cent to provide a sensitivity test on the robustness of its assessment of Canadian surplus. Navigant concluded that this incremental increase in Canadian demand is not material to its conclusions regarding surplus given the size of the gas resource.

Both Navigant and Mr. Pickering indicated that most LNG liquefaction ventures that are currently proposed in North America will not be built. Navigant submitted that many of the proposed Canadian sites are "greenfield" (a site with little or no existing infrastructure), as opposed to "brownfield" (sites that already exist) and that increases the costs and decreases the competitiveness of these projects. Furthermore, Navigant noted that from a cost perspective, developers of British Columbia coastal projects will generally be faced with the prospect of building or funding expensive pipelines to bring feedgas from sources or interconnections over coastal mountains. Other Canadian LNG export industry risks identified by Navigant include both regional and international market changes affecting natural gas prices delivered to a facility, technical challenges facing large LNG ventures, uncertainty of the ultimate construction costs, permitting hurdles, changes in the price of oil, and other market cycles that could occur over the long-term life of these LNG ventures.

Views of the Board

The Board has decided to issue a Licence to GNL Québec, subject to the approval of the Governor-in-Council, to export natural gas with the terms and conditions described in Appendix I to this letter. The role of the Board, under section 118 of the NEB Act, is to assess whether the gas proposed to be exported does not exceed the surplus remaining after due allowance has been made for the reasonably foreseeable requirements for use in Canada, having regard to trends in the discovery of gas in Canada. In fulfilling this mandate, the Board recognizes that Canadian natural gas requirements are met in the context of free trade within the North American energy market. Depending on regional characteristics, exports and imports contribute to either gas supply or gas demand. It is in this context that the Board considers whether the Surplus Criterion in the NEB Act is satisfied.

> The Board is satisfied that the gas resource base in Canada, and the overall North American gas resource base, is large and can accommodate reasonably foreseeable Canadian demand, the natural gas exports proposed in this Application, and a plausible potential increase in demand. The Board agrees with Navigant and Mr. Pickering that the North American gas market is robust, sophisticated, well-functioning, integrated and reliable. The Board further accepts the Applicant's analysis of Canadian demand and, given the size of the Canadian natural gas resource and the integrated and well-functioning nature of the North American gas market, concludes that Canadian gas requirements will be met.
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> The Board monitors Canada's natural gas supply and demand, including LNG developments. Monitoring assists the Board in identifying where markets may not be functioning properly or where the evolution of supply and demand casts doubt on the ability of Canadians to meet future energy requirements. The Board notes that the evidence in this Application is generally consistent with the Board's own market monitoring information. Recent studies of natural gas resources indicate that advances in drilling and hydraulic fracturing have resulted in greatly increased estimates of recoverable resources in the Western Canada Sedimentary Basin and in the U.S. Furthermore, since deregulation of Canadian gas markets in 1985, gas markets in North America have functioned efficiently and there is no evidence to suggest that they will not continue to do so in the future. The North American gas market is characterized by a large number of buyers and sellers, an extensive and growing pipeline and storage network, and a sophisticated commercial structure.
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> In aggregate, the LNG export licence applications submitted to the Board to date represent a significant volume of LNG exports from Canada. However, all of these LNG ventures are competing for a limited global market and face numerous development and construction challenges. The Board acknowledges GNL Québec's evidence, which cites the factors that are likely to limit Canadian LNG export volumes including: availability of existing infrastructure, remoteness, greenfield construction costs, and changing market dynamics. The Board will not predict which licences will be used or used to the full allowance and therefore, the Board evaluates each application on its own merit.

Issues Raised During the Comment Period

On 16 May 2015, the *Collectif de l'Anse à Pelletier* (Collectif) filed comments with the Board outlining several issues relating to the potential environmental impacts, certain economic issues, and the marine shipping issues associated with GNL Québec's proposed export facility.

On 27 May 2015, GNL Québec filed its reply to the comments filed by the Collectif. In its reply, GNL Québec noted that it has already initiated a community and stakeholder consultation process and has committed to setting up several advisory committees to engage stakeholders. GNL Québec concluded that the issues raised by the Collectif relating to environmental and marine transportation may be relevant to other provincial and federal regulators.

Views of the Board

In the Board's view, the comments relating to the potential environmental impacts, certain economic issues, and the marine shipping issues related to GNL Québec's proposed export facility are matters outside the scope of the Board's jurisdiction on gas export licence applications to assess the Surplus Criterion. The Board notes the approval of an export licence does not directly or indirectly authorize, influence or pre-determine the decisions of other regulators or government agencies responsible for assessing those issues raised by the Collectif.

Relief Requested

GNL Québec requests relief from the information requirements for gas export licence applications set out in section 12 of the *National Energy Board Act Part VI (Oil and Gas) Regulations* (Part VI Regulations), except where those requirements are addressed in its Application. GNL Québec also requests any further terms or relief the Board may consider appropriate in the circumstances.

Views of the Board

The Board notes that it may exempt applicants for gas export licences from filing requirements contained in section 12 of the Part VI Regulations. In its *Interim Memorandum of Guidance Concerning Oil and Gas Export Applications and Gas Import Applications under Part VI of the National Energy Board Act*, dated 11 July 2012, the Board indicated that it no longer requires applicants for gas export licences to file the information contained in section 12(f). The Board further recognizes that not all of the filing requirements contained in section 12 of the Part VI Regulations are relevant to its assessment of this Application. Therefore, the Board exempts GNL Québec from the filing requirements contained in section 12 of the Part VI Regulations that were not included in the Application.

It is the Board's view that no further relief is necessary for this Application.

R. R. George
Presiding Member

P.H. Davies
Member

J. Gauthier
Member

August 2015
Calgary, Alberta

Appendix I

Terms and Conditions of the Licence to be Issued for the Export of Natural Gas

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General

1. GNL Québec Inc. (GNL Québec) shall comply with all of the terms and conditions contained in this licence unless the National Energy Board (Board) otherwise directs.

Licence Term, Conditions and Point of Export

2. Subject to Condition 3, the term of this licence shall commence on the date of first export, and shall continue for a period of 25 years thereafter.

3. This Licence shall expire 10 years from the date of Governor-in-Council approval of its issuance, unless exports have commenced on or before that date, or the Board otherwise directs.

4. The quantity of natural gas that can be exported under the authority of this licence is:

    a. Maximum annual quantity that may be exported in any 12-month period, including the 15 per cent tolerance, may not exceed 18.52 10^9m^3.

    b. Maximum term quantity, including the 15 per cent tolerance, may not exceed 458.34 10^9m^3.

5. Natural gas will be exported at the outlet of the loading arm of the natural gas liquefaction facility to be located at the port of Saguenay, also called the port of Grande-Anse in La Baie, Québec, Canada.