



## LETTER DECISION

File OF-EI-Gas-GL-S823-2014-01 01  
1 October 2015

Mr. Nigel Kuzemko  
Chief Executive Officer  
Steelhead LNG Corp.  
650 – 669 Howe Street  
Vancouver, BC V6C 0B4  
Facsimile 604-669-1953  
Email: [nigel.kuzemko@steelheadlng.com](mailto:nigel.kuzemko@steelheadlng.com)

Dear Mr. Kuzemko:

### **Steelhead LNG (C) Inc.**

### **Application for a Licence to Export Natural Gas, in the form of Liquefied Natural Gas National Energy Board Reasons for Decision**

On 8 July 2014, the National Energy Board (NEB or Board) received five (5) separate applications from Steelhead LNG (A) Inc., Steelhead LNG (B) Inc., Steelhead LNG (C) Inc., Steelhead LNG (D) Inc., and Steelhead LNG (E) Inc., (the Steelhead LNG Applicants), each pursuant to section 117 of the *National Energy Board Act* (NEB Act) for licences to export gas. In its application (Application) to export natural gas, in the form of liquefied natural gas (LNG), Steelhead LNG (C) Inc. (the Applicant) seeks:

- a 25-year Licence, starting on the date of first export;
- including a 15% annual tolerance, a maximum annual export quantity of 6.9 million metric tonnes (MMt) or 356.5 billion cubic feet (Bcf)<sup>1</sup>;
- a maximum term export quantity of 173 MMt (8 920 Bcf) over the term of the licence<sup>2</sup>;
- the point of export to be at the outlet of the loading arm of proposed natural gas liquefaction terminals anticipated to be located in the vicinity of Sarita Bay, near the Trevor Channel, British Columbia, Canada;
- an early 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.

.../2

<sup>1</sup> Applied-for quantity of 6.0 MMt (310 Bcf) plus the 15 per cent annual tolerance.

<sup>2</sup> Applied-for term quantity includes 15 per cent annual tolerance.

### **Summary of Public Notice, Comment Period, and Information Requests**

The Steelhead LNG Applicants published a consolidated Notice of Applications and Comment Period (Notice) for impacted persons in *La Presse* on 11 September 2014, and in the *Globe and Mail* on 12 September 2014. The Notice requested that any impacted person who wished to file submissions on the merits of the applications do so by 21 October 2014 and that the Steelhead LNG Applicants were to respond by 31 October 2014. The Board received no submissions from the public during this time period.

On 24 February 2015, the Board issued Information Request (IR) No. 1 to the Steelhead LNG Applicants. The Steelhead LNG Applicants filed a response on 13 March 2015.

On 9 April 2015, a comment was filed by Mr. Keith Wyton regarding the response to IR No. 1 by the Steelhead LNG Applicants.

On 8 May 2015, the Board issued IR No. 2 to the Steelhead LNG Applicants which requested more precise geographical location(s) for the proposed point(s) of export. The Steelhead LNG Applicants responded on 21 June 2015.

On 27 May 2015, the Steelhead LNG Applicants requested a meeting with the Chairman of the Board. On 3 June 2015, the Board declined this request.

On 5 June 2015, Mr. Keith Hunter, on behalf of the Tseshaht First Nation, filed a comment regarding the location(s) of the proposed point(s) of export. On 15 June 2015, the Board acknowledged receipt of the comment.

On 24 July 2015, Staff issued IR No. 3 to the Steelhead LNG Applicants. The Steelhead LNG Applicants filed a response on 31 July 2015 and an amended response on 5 August 2015.

On 2 September 2015, Staff issued IR No. 4 to the Steelhead LNG Applicants. The Steelhead LNG Applicants filed a response on 3 September 2015.

### **Surplus Determination**

Steelhead LNG (C) Inc. submitted that, as required by the Surplus Criterion<sup>3</sup>, 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 its submission, the Applicant submitted the following studies: (1) *Supply and Demand Market Assessments – prepared by Navigant Consulting, Inc. (Navigant Report)* and (2) *Export Impact Assessments (EIA) – prepared by Gordon Pickering (Pickering Report)*.

---

<sup>3</sup> 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 the 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.”

The Navigant Report provided an outlook for Canadian and North American natural gas markets, which portrays ample, stable supplies. The Navigant Report noted the large extent of North American natural gas resources and projected that these resources will be sufficient to meet U.S. and Canadian demand, as well as export demand for LNG shipped from North America. The Navigant Report noted that the abundant volume of natural gas will help support an assessment that the quantity of natural gas to be exported from Canada by the Applicant will not threaten the ability of the market to meet the foreseeable requirements of natural gas in Canada, having regard to the trends in discovery of oil and gas in Canada.

According to the Pickering Report, the transformation of the integrated gas industry, as a result of shale gas development, is apt to cause dramatic changes to gas flows across North America that will be beneficial to Canadians and make it highly unlikely that the Application for export will cause Canadians difficulty in meeting their gas requirements over the proposed licence term.

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. To provide a sensitivity test of the robustness of its assessment of Canadian surplus, Navigant increased its forecasted Canadian natural gas demand growth rate by 20 per cent. Navigant concluded that this incremental increase in Canadian demand is not material to its conclusions regarding surplus given the size of the gas resource.

In considering the factors which would limit LNG exports from Canada, Navigant identified such risks as the significant costs associated with building pipelines in difficult terrain, lack of supporting infrastructure such as roads and utility services, 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 an export licence to Steelhead LNG (C) Inc., subject to the approval of the Governor in Council, to export natural gas, in the form of LNG, with the terms and conditions described in the 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 a 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, including the LNG exports proposed by the Applicant, and a plausible potential increase in demand. The Board agrees with the Applicant's evidence that the North American gas market is integrated, interconnected, competitive, and functional in nature. The Board further accepts the Applicant's analysis of Canadian demand and, given the size of Canadian natural gas resources and the integrated and functional nature of the North American gas market, concludes that Canadian gas requirements will be met.

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.

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 the Applicant's evidence which cites factors that are likely to limit Canadian LNG export volumes. The Board will not predict which licences will be used or used to the full allowance and therefore, the Board evaluates each application based on its own merit.

### **Issues Raised After the Comment Period**

After the comment period had expired, two commenters raised issues regarding the specificity of the Applicant's location for its proposed point of export.

#### ***Views of the Board***

The Board finds that the comments relating to the export point location have been addressed by the Applicant in its response to IR No. 2. The Board is satisfied with the information provided by the Applicant in relation to the location of the proposed point of export and the Board has no further remarks on the comments submitted.

**Relief Requested**

The Applicant seeks relief from the filing requirements 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 specifically addressed in the Application. Steelhead LNG (C) Inc. also requested 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 the 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 NEB Act*, dated 11 July 2012, the Board indicated that it no longer requires applicants to file the information contained in section 12(f). The Board further recognizes that not all of the other filing requirements contained in section 12 of the Part VI Regulations are relevant to its assessment of this Application. Therefore, the Board exempts the Applicant 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

October 2015  
Calgary, Alberta

## Appendix I

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

---

#### General

1. Steelhead LNG (C) Inc. 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  $10.11 \times 10^9 \text{ m}^3$ .
  - b. Maximum term quantity, including the 15 per cent tolerance, may not exceed  $252.7 \times 10^9 \text{ m}^3$ .
5. Natural gas, in the form of liquefied natural gas, will be exported at a point at the outlet of the loading arm of proposed natural gas liquefaction terminals anticipated to be located in the vicinity of Sarita Bay, near the Trevor Channel, British Columbia, Canada.