



LETTER DECISION

File OF-EI-Gas-GL-C967-2015-01 01
26 November 2015

Mr. Robin Junger
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Vancouver, BC V6E 4N7
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Dear Mr. Junger:

**Cedar 1 LNG Export Ltd. Application, dated 1 May 2015, for a Licence to Export Natural Gas as Liquefied Natural Gas (LNG)
National Energy Board Reasons for Decision**

On 1 May 2015, Cedar 1 LNG Export Ltd. (Cedar 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 natural gas (Application), in the form of liquefied natural gas (LNG). Cedar seeks:

- a 25-year Licence, starting on the date of first export;
- including a 15 per cent annual tolerance, a maximum annual export quantity of 8.55 billion cubic metres (10^9m^3), or 302 billion cubic feet (Bcf), of natural gas¹;
- a maximum term quantity of $214.10 \times 10^9\text{m}^3$ (7558 Bcf) of natural gas over the term of the Licence, including tolerance²;
- the point of export will be at the outlet of the loading arm of the liquefaction terminals, which are anticipated to be located in the Northern Douglas Channel, in the vicinity of Kitimat, British Columbia, Canada; and,
- an expiration clause where, unless otherwise authorized by the Board, the Licence will expire ten years after the date of Governor-in-Council approval of the issuance of the Licence, if LNG exports have not commenced on or before that date.

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¹ In a filing on 10 August 2015, Cedar corrected its applied-for annual and term volumes, inclusive of tolerance. This document can be found on the NEB website (Efile: [A71706](#)).

² Ibid.

Summary of Public Notice, Comment Period and Information Requests

On 15 September 2015, as directed by the Board, Cedar published a Notice of Application and Comment Period (Notice) for impacted persons in both *The Globe and Mail* and *La Presse*. The Notices requested that any impacted person who wished to file submissions related to the Surplus Criterion³ do so by 19 October 2015, providing Cedar with the opportunity to respond by 28 October 2015.

The Board received a submission from Atlantic Pacific Spaceline Enterprise Incorporated (APSE) on 19 October 2015. Cedar filed its response to APSE's submission on 28 October 2015. The Board issued two Information Requests (IRs) to Cedar, on 31 July 2015 and 9 September 2015. Cedar filed its responses to the IRs on 10 August 2015 and 21 September 2015, respectively.

Surplus Determination

Cedar 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, Cedar submitted the following studies: (1) *Long-Term Natural Gas Supply and Demand Forecast to 2050* by Ziff Energy (Ziff), and (2) *A Description of the Implications on the ability of Canadians to meet their natural gas requirements and an Assessment of whether this gas is surplus to reasonably foreseeable requirements for use in Canada* by Roland Priddle.

Ziff submitted that the North American and Western Canadian gas resource bases are robust and continue to grow with the development of horizontal drilling and multi-stage fracture technologies. Ziff noted there is an abundance of low-cost natural gas resource available in North American and Canadian shale gas plays and unconventional gas plays. Ziff expects the natural gas markets in North America to continue to function efficiently during the forecast period and to provide appropriate market signals for the development of resources to meet Canadian domestic and export demand.

Ziff and Mr. Priddle stated that Canadian gas markets have been adequately supplied and they expect the trend will continue as these markets are a component of the integrated North American gas market. Mr. Priddle and Ziff submitted that the North American gas market is highly liquid, open, and efficient. Ziff also provided a Canadian demand sensitivity analysis considering a 20 per cent increase in Canadian demand and found that it would not change the overall conclusions of its supply/demand forecast. Ziff and Mr. Priddle concluded that the export of gas proposed by the Applicant will not cause Canadians any difficulty in meeting their natural gas requirements.

³ The Surplus Criterion, set out in 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."

When considering the level of LNG exports from Canada in its supply/demand forecast, Cedar noted that Ziff considered only the Applicant's export volumes and noted that no LNG export facility projects have reached a final investment decision. Regarding the factors that could limit the volume of LNG exports from Canada, Mr. Priddle identified factors that would be project-related and those that would be global considerations. With respect to project-related factors, Mr. Priddle identified a number of limiting factors including: distance from Canadian gas supplies, the creation of gas supply infrastructure in geographically remote areas and greenfield sites, financing issues, commercial project complexity, completion risk, and project economics. With respect to global considerations, Mr. Priddle identified limiting factors such as global and regional gas demand, modest gas market growth, and global competition.

Views of the Board

The Board decided to issue a Licence to Cedar, subject to the approval of the Governor in Council, to export natural gas as liquefied natural gas with the terms and conditions described in Appendix I to this letter. Our role, 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 (the Surplus Criterion). In fulfilling this mandate, we recognize 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 we consider whether the Surplus Criterion in the NEB Act is satisfied.

We have determined that the quantity of natural gas proposed to be exported by Cedar is surplus to Canadian needs. 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 Ziff and Mr. Priddle that the North American gas market is highly liquid, open, efficient, integrated, and responsive to changes in supply and demand. The Board further accepts the Applicant's analysis of Canadian demand and, given the size of Canadian natural gas resources and the integrated and well-functioning 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 United States.

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 Cedar's evidence which cites the factors that are likely to limit Canadian LNG export volumes including: global factors such as global gas demand, modest gas market growth, and global competition, distance from Canadian gas supplies, the creation of gas supply infrastructure in geographically remote areas and greenfield sites, financing issues, commercial project complexity, completion risk, and project economics. The Board will not predict which licences will be used or used to the full allowance. The Board evaluates each application on its own merit.

Issues Raised During the Comment Period

On 19 October 2015, APSE stated that the NEB's natural gas export approvals would impact its access to supply. APSE stated that the summation of the proposals that have been approved by the Board and are currently before the Board could 'lock out' APSE from obtaining its desired quantity of natural gas.

APSE also stated that if all the LNG export projects are approved, they will end up being uneconomic while violating the Surplus Criterion, and market prices call into question both the accuracy and validity of the reports submitted by Ziff and Mr. Priddle.

In a response submitted on 28 October 2015, Cedar stated that the Board's approach to considering each application on its own merits is sound and remains valid.

Views of the Board

The Board acknowledges that production forecasts are typically based on assumptions which carry some uncertainties. However, the Board is satisfied that the gas resource base in Canada, as well as North America, is large and can easily accommodate reasonably foreseeable Canadian demand as well as the Applicant's proposed LNG exports.

As discussed, the Board considers that the applications approved by 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. Not all LNG export licences issued by the Board will be used or used to the full allowance. The Board evaluates each application on its own merit.

Terms, Conditions, and Relief Requested

Cedar requested, in its terms and conditions, permission to act as an agent on behalf of third parties with access to gas resources. Cedar also 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. Cedar also applied for any further terms and conditions as may be requested and as the NEB may consider appropriate in the circumstances.

Views of the Board

In the Board's view, section 116 of the NEB Act does not require the holder of the export licence to also be the owner of the natural gas; therefore, the Board does not find it necessary to include a term in the Licence permitting Cedar to act as agent on behalf of third parties with access to the resources. The Board notes that Cedar, acting in its capacity as an agent, would be exporting natural gas under its Licence which requires it to report those exports in accordance with the *National Energy Board Export and Import Reporting Regulations*.

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 Cedar from the filing requirements contained in section 12 of the Part VI Regulations that were not included in the Application.

In the Board's view, no further relief is required in the granting of this Application.



R. R. George
Presiding Member



P.H. Davies
Member



J. Gauthier
Member

November 2015
Calgary, Alberta

Appendix I

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

General

1. Cedar shall comply with all of the terms and conditions contained in this licence unless the 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 natural gas 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 $8.55 \times 10^9 \text{ m}^3$.
 - b. Maximum term quantity, including the 15 per cent tolerance, may not exceed $214.10 \times 10^9 \text{ m}^3$.
5. Natural gas will be exported at the outlet of the loading arm of the natural gas liquefaction terminals to be located in the Northern Douglas Channel in the vicinity of Kitimat, British Columbia, Canada.