



LETTER DECISION

File OF-EI-Gas-GL-C964-2015-01 01
7 January 2016

Mr. David Zhao
Vice President and Executive Director
Canada Stewart Energy Group Ltd.
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Ms. Laura Estep
Dentons Canada LLP
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Calgary, AB T2P 0R8
Facsimile 403-268-3100

Dear Mr. Zhao and Ms. Estep:

**Canada Stewart Energy Group Ltd. Application dated 3 February 2015 for a
Licence to Export Gas as Liquefied Natural Gas (LNG) pursuant to Section 117
of the *National Energy Board Act* (NEB Act)
National Energy Board Reasons for Decision**

On 3 February 2015, Canada Stewart Energy Group Ltd. (Canada Stewart or Applicant) applied to the National Energy Board (NEB or Board) pursuant to section 117 of the NEB Act for a licence (Licence) to export gas (Application), in the form of LNG. Canada Stewart 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 47.56 billion cubic metres (10^9 m^3) or 1,679 billion cubic feet (Bcf)¹;
- a maximum term quantity of $989.3 \times 10^9 \text{ m}^3$ (34,923 Bcf) over the term of the licence²;
- the point of export at the proposed natural gas liquefaction terminal to be located near Stewart, British Columbia, Canada; and
- 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.

Summary of Public Notice, Comment Period, and Information Requests

On 24 September 2015, Canada Stewart published a Notice of Application and Comment Period (Notice) for impacted persons in both the *Globe and Mail* and *La Presse*.

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¹ Applied-for annual quantity of $41.36 \times 10^9 \text{ m}^3$ (1,460 Bcf) plus the 15 per cent annual tolerance.

² Applied-for term quantity of $860.26 \times 10^9 \text{ m}^3$ (30,368 Bcf) inclusive of the 15 per cent annual tolerance

The Notice requested that any impacted person who wished to file submissions that are relevant to the Surplus Criterion in section 118 of the NEB Act³ do so by 2 November 2015 and that Canada Stewart respond by 12 November 2015.

The Board received a submission from Atlantic Pacific Spaceline Enterprise Incorporated (APSE) on 2 November 2015. Canada Stewart filed its response to APSE's submission on 9 November 2015.

The Board issued Information Request No. 1 to Canada Stewart on 6 August 2015, and Canada Stewart filed its response on 18 August 2015. The Board issued Information Request No. 2 to Canada Stewart on 19 November 2015, and Canada Stewart filed its response on 1 December 2015.

Surplus Determination

Canada Stewart 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 regard to the trends in the discovery of gas in Canada. In support of this submission, Canada Stewart filed 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 (Mr. 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 stated that it expects the natural gas markets in North America to continue to function in a rational manner during the forecast period and to provide appropriate market signals for the development of resources to meet Canadian domestic and export demand.

Ziff stated that Canadian gas markets have been adequately supplied, that it expects the trend will continue and these markets are a component of the integrated North American gas market. Ziff also 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 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, Ziff considered only the Applicant's export volumes and noted that no LNG export facility projects have reached a final investment decision. Canada Stewart considered that this was a prudent approach, and noted that its applied-for export volumes were broadly in line with the assumptions for total future Canadian LNG exports made by the Board. Canada Stewart adopted certain LNG export assumptions from the Board's report, *2015 Canada's Energy Futures Report Preliminary Results*, and stated that any differences in volumes and timing between these and those made in the Ziff Report were not significant in relation to the overall forecast Canadian and North American aggregate gas supply and requirements. Regarding the factors that could limit the volume of LNG exports from Canada, Canada Stewart identified those that would be project-related and those that would be global considerations. With respect to project-related limiting factors, Canada Stewart identified the following: distance from Canadian gas supplies, the creation of gas supply infrastructure in geographically remote areas and greenfield sites, financing issues, project commercial complexity, completion risk, commercial risk, project economics, consolidation of initial projects, environmental and other regulatory requirements, and Aboriginal engagement and consultation. With respect to global considerations, Canada Stewart identified limiting factors including global and regional gas demand, questions around gas market growth, alternatives to imported LNG for sourcing of market supplies, competition among LNG suppliers, policy and regulatory issues in importing jurisdictions, and phasing of exports.

Views of the Board

We have decided to issue a Licence to Canada Stewart, 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. 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. 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 Canada Stewart 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 the Applicant that the North American gas market is highly liquid, open, efficient, integrated, and will continue to function in a rational manner. The Board notes, and accepts as reasonable, the Applicant's adoption of certain LNG export assumptions contained in *2015 Canada's Energy Futures Report Preliminary Results*. 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 Canada Stewart's evidence which discusses a broad range of factors which are likely to limit Canadian LNG export volumes, including both project-related and global considerations. 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

In its letter of comment dated 2 November 2015, APSE stated it will be an 'impacted and affected person' if the Board grants Canada Stewart an export licence. 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 and/or underutilized while violating the Surplus Criterion. Further, APSE submitted that turmoil in LNG markets calls into question both the accuracy and validity of the reports submitted by Ziff and Mr. Priddle.

In a response dated 9 November 2015, Canada Stewart stated that the Board's approach to considering each application on its own merits is well founded and well established. Canada Stewart further stated that its application meets the information requirements for an LNG export licence application, and noted that Mr. Priddle's report specifically addressed the issue of cumulative LNG exports.

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 above, 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. 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.

Relief Requested

Relief from Filing Requirements

Canada Stewart requested 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* (Oil and Gas Regulations), except where those requirements are specifically addressed elsewhere in its Application.

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 Oil and Gas 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 for gas export licences 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 Oil and Gas Regulations are relevant to its assessment of this Application. Therefore, the Board exempts Canada Stewart from the filing requirements contained in section 12 of the Oil and Gas Regulations that were not included in the Application.



R. R. George
Presiding Member



P.H. Davies
Member



J. Gauthier
Member

January 2016
Calgary, Alberta

Appendix I

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

General

1. Canada Stewart Energy Group Ltd. (Canada Stewart) 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 $47.56 \times 10^9 \text{ m}^3$.
 - b. Maximum term quantity, including the 15 per cent tolerance, may not exceed $989.3 \times 10^9 \text{ m}^3$.
5. The natural gas will be exported at the outlet of the loading arm of the liquefaction terminal referred to in Canada Stewart's application dated 3 February 2015, to be located in the vicinity of Stewart, British Columbia, Canada.