



LETTER DECISION

File OF-EI-Gas-GL-W157-2016-01 01
6 April 2017

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Ms. Laura Letourneau
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Dear Ms. Letourneau and Mr. Sanderson:

**Woodfibre LNG Export Pte. Ltd. (Woodfibre or Applicant)
Application for a 40-Year Licence to Export Natural Gas in the form of Liquefied Natural
Gas (LNG) pursuant to Section 117 of the *National Energy Board Act*
National Energy Board Reasons for Decision**

On 27 October 2016, Woodfibre 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 LNG.

Woodfibre seeks:

- a 40-year Licence, starting on the date of first export;
- an early expiration clause where, unless otherwise authorized by the Board, the Licence will expire ten years after the date of Governor in Council (GIC) approval of the Licence, unless exports have commenced on or before that date;
- a maximum annual export quantity of 3.34 billion cubic metres (10^9m^3) of natural gas, including a 15 per cent annual tolerance;
- a maximum quantity of $133.6 \times 10^9\text{m}^3$ of natural gas over the term of the Licence¹;
- As a tolerance, the amount of LNG that may be exported in any consecutive twelve month period may exceed the annual volume by up to 15%. In addition, any unutilized portion of the annual volume of $2.9 \times 10^9\text{m}^3$ in any year may be utilized in the subsequent 5 years; and
- the point of export of LNG from Canada shall be at the outlet of the loading arm of the LNG facility located near Squamish, British Columbia.

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¹ The applied-for term quantity includes the requested annual tolerance.

Background

Woodfibre first applied to the Board on 23 July 2013 for a licence authorizing the export of LNG for a term of 25 years. The Board approved this application on 16 December 2013. On 31 March 2014, the Board notified Woodfibre that the Governor in Council approved the issuance of Licence GL-304.

Since the Board issued Licence GL-304, the legislative regime has changed. The *Economic Action Plan 2015 Act*, which received Royal Assent on 23 June 2015, amended, in part, subsection 119.01(1.1) of the NEB Act. This amendment permits the issuance of natural gas export licences for a maximum term of 40 years, an increase from the previous maximum term of 25 years, if the gas to be exported meets the definition of natural gas as defined in the *National Energy Board Act Part VI (Oil and Gas) Regulations* (Regulations). On 31 July 2015, the Regulations were amended to include section 10.1, outlined below:

For the purposes of subsection 119.01(1.1) of the Act, *natural gas* means a mixture of gas that is composed of at least 85% methane and that may also contain other hydrocarbons that, at a temperature of 15°C and an absolute pressure of 101.325 kPa, are in a gaseous state, as well as minor amounts of non-hydrocarbon gas and impurities.

On 27 October 2016, Woodfibre applied to the Board pursuant to section 117 of the NEB Act for a Licence to export natural gas, in the form of LNG, for a term of 40 years. The Applicant, in its evidence, confirmed that the LNG exported under the Licence will meet the definition of natural gas in the Regulations.

Summary of Information Request, Public Notice, and Comment Period

The Board issued Information Request (IR) No. 1 to Woodfibre on 28 December 2016 and Woodfibre filed its response on 5 January 2017.

The Board received submissions from My Sea to Sky Society, on 12 January 2017, Nerys Poole, on 8 March 2017, and Atlantic Pacific Spaceline Enterprise Incorporated (APSE) on 13 March 2017. Woodfibre filed its response to these submissions on 16 March 2017.

On 9 February 2017, Woodfibre published a Notice of Application and Comment Period (Notice) for impacted persons in *The Globe and Mail* and *La Presse*. The Notice stated that any impacted person who wished to file submissions relevant to the Surplus Criterion² could do so by 13 March 2017 and that Woodfibre had the opportunity to respond to any submissions by 23 March 2017.

² 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.”

Surplus Determination

Woodfibre submitted that, as required by the Surplus Criterion, the quantity of natural 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. To support this submission, Woodfibre submitted the *Gas Supplies, Requirements, Implications and Surplus Assessment Report* (Report) by Roland Priddle (Mr. Priddle).

Mr. Priddle stated that the enormous gas resource base, including the supply capability of that resource base, can accommodate reasonably foreseeable demand, a plausible potential increase in demand,³ the exports proposed in the Application, other LNG exports, and projected net pipeline exports. Mr. Priddle examined supply and demand conditions in Canada assuming 5.9 Bcf/d of net LNG exports from Canada, which includes the 0.32 Bcf/d⁴ export quantity requested by Woodfibre for its project.

Mr. Priddle submitted that growing North American gas resource assessments are largely due to the revolutionary development of unconventional gas through innovative technologies such as horizontal drilling, multi-stage fracturing, increased drilling rig productivity, and industry competition. Mr. Priddle stated that resource assessments continue to grow.

The Report stated that historically, Western Canada exported gas to the Northeast U.S. through Ontario and Québec. As a result of rapid development of U.S. gas production, Mr. Priddle noted that natural gas exports from Canada to the U.S. have been decreasing.

Mr. Priddle submitted that the integrated North American gas sector presents a functioning market, the largest and best-operating in the world. Mr. Priddle stated that since gas commodity deregulation was initiated in 1985, Canadians have been able to meet their gas requirements in full at prices determined by this increasingly sophisticated functioning market. The Report stated that the gas market is transparent, efficient, open to participants, liquid, competitive, flexible, and price responsive. The Report stated that the mature gas marketplace in Canada and North America is characterized by a large number of buyers and sellers, an extensive and growing pipeline and storage network, and a sophisticated commercial structure.

Mr. Priddle stated that the incremental cost of adding new production to supply any exported LNG is low, and Canadian gas consumers are likely to be affected only marginally, if at all. Mr. Priddle submitted that the market structure, characteristics, and functioning cannot be adversely affected by the exports proposed by Woodfibre, which are relatively small compared to the aggregate supply available during their term. The Report stated that Canadians will continue to be able to meet their gas requirements easily, adequately, cost competitively, and securely in the presence of the applied-for export quantities over the requested licence term within the integrated North American market.

³ The Report shows surplus exists even with a 20 per cent increased demand sensitivity.

⁴ 0.32 Bcf/d corresponds to the requested export volume of $3.34 \times 10^9 \text{ m}^3$ per year.

Mr. Priddle stated that production is assumed to be demand-driven, consistent with the strong expectation of continuing natural gas resource abundance in Canada and North America. The Report also stated that there is no evidence that Canadian gas markets would not continue to perform efficiently into the mid-2060s and beyond.

When considering the level of LNG exports from Canada, Mr. Priddle noted that no major Canadian project has reached an unconditional final investment decision. Mr. Priddle also stated that project-related factors and global considerations could limit the LNG export volumes from Canada. The project-related factors include the distance from Canadian gas supplies to the marine terminals, the creation of gas supply infrastructure in geographically remote areas and greenfield sites, financing issues, the complexity of commercial operations from production to final distribution, completion risk, and project economics. The global factors include the level of global and regional gas demand and gas market growth, global competition, and global policy considerations.

Mr. Priddle concluded that the quantity of gas proposed to be exported by Woodfibre is surplus to Canadian needs, and the Board can be satisfied that the Canadian natural gas resource base is large and can accommodate reasonably foreseeable Canadian demand as well as the results of the increased 20 per cent demand growth sensitivity analysis.

Views of the Board

The Board has decided to issue a 40-year Licence to Woodfibre, subject to Government in Council approval, to export natural gas subject to 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 natural 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 natural 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 natural gas supply or natural gas demand. It is in this context that we consider whether the Surplus Criterion is satisfied.

We have determined that the quantity of natural gas proposed to be exported by Woodfibre, for a term of 40 years, is surplus to Canadian needs. The Board is satisfied that the natural gas resource base in Canada, as well as North America overall, is large and can accommodate reasonably foreseeable Canadian demand, including the exports proposed in this Application, and a plausible potential increase in demand.

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.

Consistent with the evidence submitted in Woodfibre's Application, the Board believes that not all LNG export licences issued by the Board will be used or used to the full allowance. The Board also evaluates each application based on the merit of its own evidence.

In order to ensure that Woodfibre exports natural gas that meets the specifications set out in the Regulations throughout the term of its Licence, the Board has included a condition that the natural gas to be exported must meet the definition of natural gas in the Regulations.

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 North American natural 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. Since deregulation of Canadian natural gas markets in 1985, natural gas markets in North America have functioned efficiently and there is no evidence to suggest that they will not continue to do so into the long-term future, up to the applied for 40 year term.

Issues Raised Prior to the Comment Period

My Sea to Sky Society, Nerys Poole, and APSE all recommended that the Board not approve the Licence and that the Board consider the aggregate impacts of the proposed liquefaction projects in Canada. Specific to the Board's mandate under section 118 of the NEB Act, My Sea to Sky Society, Nerys Poole, and APSE stated that the aggregate production quantities related to LNG export licence applicants, if all exports go ahead, would affect Canadians' access to natural gas.

In response to these comments, Woodfibre stated that natural gas reserves in time reflect economic conditions at that point in time, rather than physical resource limitations. Woodfibre also stated that producers do not develop the resource if there is not a current market. Woodfibre noted that as markets expand, resources are converted to reserves and to production from those reserves. Woodfibre noted that a number of the concerns were not related to any considerations of the Board mandated under section 118 of the NEB Act.

Views of the Board

Under section 118 of the NEB Act, the Board's role is to assess whether the natural 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 natural gas in Canada. The Board is satisfied that the natural gas resource base in Canada, as well as North America overall, is large. The Board also notes that the estimated size of the Canadian resource base has been growing as new unconventional resources are discovered and evaluated, and it is expected that this upward trend will continue. Furthermore, an export licence is a standalone authorization that does not authorize construction of LNG export facilities.

As noted 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. Not all LNG export licences issued by the Board will be used or used to the full allowance.

The Board is satisfied that the gas resource base in Canada, as well as North America, is large and can accommodate reasonably foreseeable Canadian demand as well as the Applicant's proposed LNG exports. For these reasons, the Board rejects the recommendation made by My Sea to Sky Society, Atlantic Pacific Spaceline Enterprise Incorporated and Nerys Poole in their letters that it not approve Woodfibre's 40-year export licence application.

Revocation of Licence GL-304

In its Application, Woodfibre stated that if it is issued the Licence with the requested terms and conditions, following Governor in Council approval, Woodfibre will consent to the Board exercising its authority under subsection 119(3) of the NEB Act to revoke Licence GL-304 upon the expiry or exhaustion of any rights of appeal or judicial review related to the Application and issuance of the Licence.

Views of the Board

The Board, upon Governor in Council approval, will require a letter from Woodfibre requesting that the Board exercise its authority under subsection 119(3) of the NEB Act to revoke Licence GL-304 upon the expiry or exhaustion of any rights of appeal or judicial review related to the Application and issuance of the Licence.

Relief Requested

Woodfibre requested relief from the filing requirements for gas export licence applications under section 12 of the Regulations that were not specifically addressed in its Application. Woodfibre also requested any further terms 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 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) of the Regulations. The Board is in the process of updating the Regulations to align with changes to the NEB Act. The Board further recognizes that not all of the filing requirements contained in section 12 of the Regulations are relevant to its assessment of this Application.

Therefore, the Board exempts Woodfibre from the filing requirements contained in section 12 of the Regulations that were not included in the Application.


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

Additional Licence Terms and Conditions

Woodfibre requested a 15 per cent annual tolerance to the amount of gas that may be exported under the licence in any 12-month period to manage variability in the quantity of LNG that could be produced at the LNG facility. Woodfibre also requested, that any unutilized portion of the annual volume of $2.9 \times 10^9 \text{m}^3$ in any year may be utilized in the subsequent 5 years.

Views of the Board


The Board accepts Woodfibre's request for a 15 per cent annual tolerance. The maximum term quantity permitted under the licence is inclusive of the annual tolerance amount. The Board denies Woodfibre's additional request for unutilized annual export amounts to be available for the subsequent five years.



S. J. Kelly
Presiding Member



S. Parrish
Member



M. Lytle
Member

April 2017
Calgary, Alberta

Appendix I

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

General

1. Woodfibre LNG Export Pte. Ltd. (Woodfibre) 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 40 years thereafter.
3. This Licence shall expire ten years from the date of Governor in Council approval of the Licence unless exports of LNG have commenced on or before that date, or the Board otherwise directs.
4. The maximum quantity of natural gas, inclusive of tolerance, that can be exported by Woodfibre under the authority of this Licence is:
 - a. $3.34 \times 10^9 \text{m}^3$ annually, in any 12-month period; and
 - b. $133.6 \times 10^9 \text{m}^3$ for the term.
5. The point of export of natural gas from Canada shall be at the outlet of the loading arm of the liquefaction facility to be located near Squamish, British Columbia.
6. The natural gas exported by Woodfibre shall meet the definition of natural gas set out in the *National Energy Board Act Part VI (Oil and Gas) Regulations*.