



LETTER DECISION

File OF-EI-Gas-GL-W156-2016-01 01
28 July 2016

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Dear Sirs:

**WCC LNG Ltd. (WCC or Applicant)
Application for a 40-Year Licence to Export Natural Gas
as Liquefied Natural Gas (LNG)
National Energy Board Reasons for Decision**

On 28 March 2016, WCC 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.

WCC seeks:

- a 40-year Licence, starting on the date of first export;
- including a 15% annual tolerance, a maximum annual export quantity of 47.61 billion cubic metres (10^9 m^3) or 1,680.15 billion cubic feet (Bcf)¹, of natural gas;
- a maximum term quantity of $1\ 817\ 10^9 \text{ m}^3$ or (64.2 Tcf) of natural gas over the term of the licence²;

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¹ Applied for annual quantity of $41.4\ 10^9 \text{ m}^3$ (1 461 Bcf) plus the 15% annual tolerance as provided in the Applicant's schedule, which includes ramp-up.

² Applied for term quantity is adjusted for ramp-up schedule and includes 15% annual tolerance.

- the point of export of LNG from Canada shall be at the outlet of the loading arm of the proposed natural gas liquefaction terminal to be located in the vicinity of either Kitimat or Prince Rupert, British Columbia, Canada;
- an early expiration clause where, unless otherwise authorized by the Board, the Licence shall expire 10 years after the date of Governor in Council approval of the issuance of the Licence if the export of LNG has not commenced on or before that date.

Background

Initially, WCC applied to the Board for a licence authorizing the export of LNG on 9 June 2013. WCC sought a licence term of 25 years. The Board approved this application on 16 December 2013. Governor in Council (GIC) approved that Licence on 18 March 2014, and the Board issued Licence GL-302 to WCC on 31 March 2014.

Since the Board issued Licence GL-302, the legislative regime was 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 provides for the issuance of natural gas export licences for a term not exceeding 40 years up from the previous 25 years, if the gas to be exported meets the definition of natural gas, as defined in the regulations. On 31 July 2015, the *National Energy Board Act Part VI (Oil and Gas) Regulations* (Regulations) were amended by adding the following definition of natural gas:

10.1 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 28 March 2016, WCC applied to the Board pursuant to section 117 of the NEB Act for a 40 year licence to export natural gas, in the form of liquefied natural gas. The Applicant confirmed that its LNG exports will meet the definition of natural gas as defined in the Regulations.

Summary of Public Notice, Comment Period, and Information Requests

WCC published a Notice of Application and Comment Period (Notice) for impacted persons in *La Presse* on 21 May 2016 and in the *Globe and Mail* on 24 May 2016. The Notice requested that any impacted person who wished to file submissions relevant to the Surplus Criterion³ could do so by 27 June 2016, providing WCC the opportunity to respond by 8 July 2016.

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.”

The Board issued informal Information Request (IR) No. 1 to WCC on 20 April 2016 and WCC filed its response on 27 April 2016. The Board issued IR No. 2 on 12 May 2016 and received WCC's response on 2 June 2016.

Surplus Determination

WCC 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 regards to the trends in the discovery of gas in Canada. In support of this submission, WCC submitted the following studies: (1) *Long-Term Natural Gas Supply and Demand Forecast to 2065* by Solomon Associates (Solomon) and (2) *WCC LNG Ltd., Application for a 40-year Gas Export Licence: Implications and Surplus Assessment Report* by Mr. Roland Priddle (Priddle).

Solomon and Priddle submitted that the North American and Western Canadian gas resources are robust and continue to grow with the development of horizontal drilling and multi-stage fracture technologies. Solomon stated that Western Canadian production is currently constrained by market and competitive factors. The increase in Western Canadian production over the forecast period reflects new market outlets resulting from WCC's proposed project volumes and other demand from Canadian oil sands production and power generation. Solomon noted that included in the 2065 industrial demand are 4.7 Bcf/d (4.9 PJ/d) of Canadian LNG exports, reflecting the proposed WCC project volumes. Solomon stated that there is an abundance of low-cost natural gas resource available in North American and Canadian shale-gas plays and unconventional-gas plays. Solomon expects the natural gas markets in North America to continue to function rationally during the forecast period and to provide appropriate market signals for development of resources to meet Canadian domestic and export demand.

Solomon stated that North American natural gas resources are prolific and capable of meeting consumer energy requirements at fair market prices during the forecast period. Solomon noted that North America has 3,381 Tcf (3,550 EJ) of remaining resource, of which 334 Tcf (351 EJ) is proven. Solomon also stated that as of January 1, 2015, 856 Tcf of remaining ultimate potential gas resource is estimated for Canada, or over 248 years of production available at current Canadian demand levels.

Solomon and 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 market. Solomon and Priddle submitted that the North American natural gas market is highly liquid, open and efficient. Solomon performed 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 the report. Solomon and Priddle concluded that the export of gas proposed by the Applicant will not cause Canadians any difficulty in meeting their natural gas requirements.

When considering the level of LNG exports from Canada in its supply/demand forecast, Solomon considered only the Applicant's export volumes. Regarding the factors that could limit the volume of LNG exports from Canada, Priddle identified factors that would be project-related and those that would be global considerations. With respect to project-related factors, 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, Priddle identified limiting factors such as global and regional gas demand, modest gas market growth, and global competition.

Issues Raised During the Comment Period

No issues have been raised during the comment period.

Views of the Board

The Board has decided to issue a 40-year Licence to WCC, subject to the approval of the GIC, to export natural gas, as defined in the Regulations, 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 (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 natural gas supply or natural 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 WCC, 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 natural gas 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 WCC'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.

The Board acknowledges that WCC is applying for a 40-year LNG export licence following the legislative changes discussed in the Background section. To ensure that WCC exports natural gas as defined in the Regulations throughout the term of its Licence, the Board has included a condition that the gas to be exported must meet the definition of natural gas as set out 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.

Relief and Additional Terms and Conditions

Relief from Filing Requirements

WCC requests relief from the information requirements for gas export licence applications set out in section 12 of the Regulations, except where those requirements are addressed within its Application. WCC 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 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 WCC from the filing requirements contained in section 12 of the Regulations that were not included in the Application.

Revocation of Licence GL-302

In its Application, WCC asks that, if the Board approves this Application and, upon GIC approval, issues the Licence subject to any terms and conditions, the Applicant would consent to the Board exercising its authority under subsection 119(3) of the NEB Act to revoke Licence GL-302 upon the expiry or exhaustion of any rights of appeal or judicial review related to the approvals granted by the Board and the GIC in connection with the Licence.

Views of the Board

The Board, upon GIC approval and Licence issuance, will require a letter from WCC requesting that the Board exercise its authority under subsection 119(3) of the NEB Act to revoke Licence GL-302 upon the expiry or exhaustion of any rights of appeal or judicial review related to the approvals granted by the Board and the GIC in connection with this Licence.

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



S. J. Kelly
Presiding Member



S. Parrish
Member



M. Lytle
Member

July 2016
Calgary, Alberta

Appendix I

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

General

1. WCC LNG Ltd. (WCC) 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 40 years thereafter.
3. This Licence shall expire 10 years from the date of Governor-in-Council approval of the issuance of the Licence if the export of LNG has not 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 WCC under the authority of this Licence is:
 - a. $47.61 \times 10^9 \text{m}^3$ annually, in any 12-month period; and
 - b. $1,817 \times 10^9 \text{m}^3$ for the term.
5. The point of export of natural gas from Canada shall be at the outlet of the loading arm of the natural gas liquefaction terminal to be located in the vicinity of either Kitimat or Prince Rupert, British Columbia, Canada.
6. The natural gas to be exported by WCC must meet the definition of natural gas set out in the *National Energy Board Act Part VI (Oil and Gas) Regulations*.