**LETTER DECISION**

File OF-EI-Gas-GL-A784-2015-01 01
14 January 2016

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Dear Ms. Thomas, Ms. Skoropat and Mr. Davies:

**AltaGas DCLNG General Partner Inc., on behalf of AltaGas DCLNG Lease Limited Partnership (AltaGas DCLNG or Applicant)**
**1 June 2015Application for a Licence to Export Liquefied Natural Gas (Application)**
**National Energy Board Reasons for Decision**

On 1 June 2015, AltaGas DCLNG applied to the National Energy Board (NEB or Board) pursuant to section 117 of the *National Energy Board Act* (NEB Act) for a licence to export natural gas (Licence) in the form of liquefied natural gas (LNG). AltaGas DCLNG seeks:

- a 25-year Licence, starting on the date of first export;
- a maximum annual export quantity of 10.3 billion cubic metres ($10^9m^3$), or 365 billion cubic feet (Bcf), of natural gas;
- a maximum term quantity of 258.2 $10^9m^3$ (9,125 Bcf) of natural gas over the term of the Licence;
- the point of export will be at the outlet of the loading arm of the natural gas liquefaction facility located at District Lot 99, which is approximately eight kilometers west 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 issuance of the Licence, if LNG exports have not commenced on or before that date.

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

On 27 August 2015, as directed by the Board, AltaGas DCLNG published a Notice of Application and Comment Period (Notice) for impacted persons in both *The Globe and Mail* and *La Presse*. The Notice requested that any impacted person who wished to file submissions related to the Surplus Criterion[1] do so by 2 October 2015, providing AltaGas DCLNG with the opportunity to respond by 13 October 2015.

The Board received a submission from Atlantic Pacific Spaceline Enterprise Incorporated (APSE) on 2 October 2015. AltaGas DCLNG filed its response to APSE's submission on 9 October 2015. The Board issued two Information Requests (IRs) to AltaGas DCLNG on 15 July 2015 and 16 November 2015. AltaGas DCLNG filed its responses to the IRs on 21 July 2015 and 30 November 2015, respectively.

## Surplus Determination

AltaGas DCLNG 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. In support of this submission, AltaGas DCLNG submitted the following studies: (1) *Long-Term Natural Gas Supply and Demand Forecast to 2050 for AltaGas DCLNG General Partner Inc.* by Solomon Associates (Solomon), 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).

Solomon noted that there are abundant, low-cost North American gas resources sufficient to accommodate the projected gas production to the year 2050 (forecast period). Both sources remarked that the North American and Canadian gas resources are robust and continue to grow with the development of horizontal drilling and multi-stage fracturing technologies.

Mr. Priddle and Solomon discussed the functioning of the North American natural gas market. Solomon in particular commented that the market is highly liquid, open and efficient while Priddle stated that the three-country North American gas market is found to be integrated, and that supply and demand are equilibrated by market signals. Mr. Priddle also stated that there is no evidence in his report that Canadian and North American natural gas markets will not continue to perform efficiently in the future. Mr. Priddle further stated that the North American gas sector is in every way a functioning market, the largest and best-operated in the world, and it does not distinguish national from international transactions, and the effects of fluctuations in supply and demand variables are similar across all participants (suppliers, buyers and intermediaries). Solomon finally mentioned that natural gas markets (in North America) will continue to function during the forecast period with natural gas buyers and sellers establishing fair market prices based on supply and demand fundamentals.

[1] 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."

Solomon considered a scenario with 20 per cent higher Canadian gas demand in 2050 and found that the increase in demand does not change the overall conclusion of its reference case. North American and Western Canadian gas supply is not constrained to meet projected gas demand as well as incremental demand from the AltaGas DCLNG project during the forecast period.

Mr. Priddle submitted that the proposed AltaGas DCLNG export volumes are modest in size, and if any price effect is caused by the proposed small export volumes, it is likely to be minimal. The incremental cost of adding new production over the forecast period to displace any exported LNG is low, and the ability of Canadians to meet their gas requirements is not likely to be impaired by supply-cost factors. Mr. Priddle concluded that there is no reason to think that AltaGas DCLNG's proposed LNG exports could have any unfavourable implications on the characteristics, structure or functioning of the Canadian and North American gas market from which Canadians have been able to satisfactorily meet their gas requirements for the past 30 years.

When considering the level of LNG exports from Canada in its supply/demand forecast, Solomon considered Canadian LNG exports reaching 10 Bcf/d in 2050, in addition to AltaGas DCLNG's 1.0 Bcf/d export. AltaGas DCLNG stated that Canadian LNG projects are facing a robust but limited global market and face numerous development and construction challenges. In addition, Alta Gas DCLNG stated that global LNG demand growth is uncertain with numerous global players competing for that demand.

Regarding the factors that could limit the volume of LNG exports from Canada, AltaGas DCLNG identified factors that would be project-related and those that would be global considerations. With respect to project-related factors, AltaGas DCLNG identified a number of limiting factors including: the remote supply resource (located in Northeastern BC and Alberta) from the LNG projects; creation of supply infrastructure (plant locations) in geographically remote areas in BC; remote greenfield sites and costs; finance considerations; environmental and regulatory requirements; commercial project complexity; technical, completion and commercial risks; and project economics. With respect to global considerations, AltaGas DCLNG identified a number of limiting factors including: global and regional gas demand; future gas market growth; competition among LNG suppliers; and the timing of the proposed LNG exports. Solomon confirmed there is no change in its conclusions about its expected volumes of Canadian LNG exports (including AltaGas DCLNG) after discussing all the above mentioned limiting LNG development factors.

***Views of the Board***

The Board decided to issue a Licence to AltaGas DCLNG, subject to the approval of the Governor in Council, to export 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 AltaGas DCLNG 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 Solomon 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 AltaGas DCLNG's evidence which cites the factors that are likely to limit Canadian LNG export volumes including global and regional gas demand, future gas market growth and competition between LNG suppliers, while project-related factors include distance of the LNG projects from Canadian gas supplies, the creation of gas supply infrastructure in geographically remote areas and greenfield sites, regulatory, environmental and 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 2 October 2015, APSE stated that it will be an 'impacted and affected person' if the AltaGas DCLNG export licence is approved by the Board. In addition, APSE commented that the current nineteen long term LNG export applications that have either been approved or are being considered for approval 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 that the recent turmoil in LNG markets due to fall in the price of oil call into question both the accuracy and validity of the reports submitted by Solomon and Mr. Priddle.

In a response submitted on 9 October 2015, AltaGas DCLNG stated that APSE had not made any cogent argument that supports its recommendations that the applied-for export licence be denied.

> ***Views of the Board***
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> The Board acknowledges that resource estimates 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.
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> 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**

AltaGas DCLNG 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* (Part VI Regulations), except where those requirements are addressed in its Application.

> ***Views of the Board***
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> 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 AltaGas DCLNG 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

January 2016
Calgary, Alberta

## Appendix I

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

### General

1. AltaGas DCLNG 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, shall not exceed 10.3 $10^9m^3$.

   b. Maximum term quantity shall not exceed 258.2 $10^9m^3$.

5. Natural gas will be exported at the outlet of the loading arm of the natural gas liquefaction facility located at District Lot 99, which is approximately 8 kilometres west of Kitimat, British Columbia, Canada.