**NATIONAL ENERGY BOARD**

**IN THE MATTER OF** the *National Energy Board Act*, RSC 1985, c N-7, as amended;

**AND IN THE MATTER OF** an application by GNL Québec Inc. for a licence pursuant to section 117 of the *National Energy Board Act* authorizing the export of gas.

To: Secretary of the Board
National Energy Board
517 Tenth Avenue SW
Calgary, AB
T2R 0A8

# APPLICATION

**GNL Québec Inc. - Énergie Saguenay Project**

**October 27, 2014**

# APPENDICES

**Appendix A** Project Description

**Appendix B** Supply and Demand Market Assessment

**Appendix C** Export Impact Assessment

**Appendix D** Export Volumes

# I. APPLICATION

1. GNL Québec Inc. (the "**Applicant**") hereby applies to the National Energy Board (the "**NEB**" or "**Board**") pursuant to section 117 of the *National Energy Board Act* (the "***NEB Act***") for a licence authorizing the export of up to 11 million tonnes of liquefied natural gas ("**LNG**") per year (11 MMt/y) which corresponds to a natural gas equivalent of approximately 568.5 billion cubic feet of gas per year (568.5 Bcf/y) or 1.557 Bcf per day for a term of 25 years (the "**Licence**").

2. The Applicant respectfully requests the following terms and conditions for the Licence:

   i. **Term:** A period of 25 years commencing on the date of first export of LNG pursuant to the Licence;

   ii. **Expiration:** The Licence shall expire 10 years from the date of Governor-in-Council approval of its issuance, unless the export of LNG has commenced on or before that date, or the Board otherwise directs;

   iii. **Maximum Annual Quantity:** The quantity of LNG that may be exported in any 12-month period shall not exceed 11 MMt (natural gas equivalent of approximately 568.5 Bcf), subject to the annual tolerance;

   iv. **Annual Tolerance:** In any 12-month period, the quantity of LNG that may be exported may exceed the maximum annual quantity by 15%;

   v. **Maximum Term Quantity:** The quantity of LNG that may be exported over the term of the Licence shall not exceed 313.09 MMt (natural gas equivalent of approximately 16.18 trillion cubic feet). As demonstrated in **Appendix D – Export Volumes**, this quantity takes into account decreased volumes expected during the early stage of the Licence term as well as the requested annual tolerance;

   vi. **Export Point:** The point of export from Canada shall be at the outlet of the loading arm of the natural gas liquefaction facility to be located at the port of Saguenay, also called the port of Grande-Anse in La Baie Quebec, Canada (the "**Export Point**"); and

   vii. Any further terms or relief as may be requested by the Applicant or as the Board may consider appropriate in the circumstances.

3. In preparing its application, the Applicant has considered: amendments to the *NEB Act* as a result of the *Jobs Growth and Long-term Prosperity Act*; the resultant Board *Interim Memorandum of Guidance Concerning Oil and Gas Export Applications and Gas Import Applications under Part VI of the National Energy Board Act*; the Board's approach to

the *NEB Act* amendments, first in its decision relating to LNG Development Canada Inc.'s application for a licence to export LNG, dated 4 February 2013 (the "**LNG Canada Decision**") and, subsequently, in its eight letter decisions concerning gas export licences since the LNG Canada Decision (the "**Recent Gas Export Licence Decisions**"); and, amendments to the Board's Filing Manual made on August 28, 2013. Consistent with the foregoing, the Applicant hereby seeks relief from the information requirements set out in section 12 of the *National Energy Board Act Part VI (Oil and Gas) Regulations* (the "***Part VI Regulations***"), except where those requirements are addressed within this application.

## II. APPLICATION OVERVIEW

### a. Export Need

4. The quantity of LNG requested for export pursuant to the Licence is necessary to support the Applicant's proposed Énergie Saguenay LNG export terminal to be located at the Export Point (the "**Project**").

5. The Project will be comprised of facilities for the liquefaction of natural gas, storage of LNG, export of LNG and associated port and infrastructure developments more fully described in **Appendix A – Project Description**.

### b. Project Ownership and Operation

6. The Applicant is a Quebec corporation that is wholly owned by Ruby River Capital LLC ("**Ruby River**"), incorporated in the State of Delaware, United States of America ("**USA**"). Ruby River is jointly owned by resource development firm Freestone International LLC and global equity investor Breyer Capital LLC. Further information on these entities is provided in **Appendix A – Project Description**.

### c. Key Submission

7. The key submission of the Applicant is that, consistent with section 118 of the *NEB Act*, Guide Q of the Board's Filing Manual, the LNG Canada Decision and the Recent Gas Export Licence Decisions, the quantity of gas to be exported under the Licence 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 (the "**Surplus Criterion**"). This submission of the Applicant is supported by the findings outlined in sections III and VI and detailed in **Appendix B – Supply and Demand Market Assessment** and **Appendix C – Export Impact Assessment**.

## III. GAS SUPPLY

8. As detailed in **Appendix D – Export Volumes**, at full build-out the Project will be capable of exporting 11 MMt/y, representing a natural gas equivalent of approximately 568.5 Bcf/y or 1.557 Bcf per day, subject to the requested annual tolerance.

9. Supply gas for the Project is expected to be primarily sourced from the Western Canadian Sedimentary Basin ("**WCSB**"). It is expected that gas supply for the Project over the 25 year project life will be sourced from a variety of Canadian receipt points and new or existing Canadian gas supplies including the Dawn Hub located in southwestern Ontario. The Applicant may be exporting on its own behalf or on behalf of its customers. The Applicant or its customers may acquire their own gas sources from various WCSB producers, gas aggregators and gas marketers including but not limited to owned reserves, prospective resources and open market purchases or swaps**.**

10. **Appendix B – Supply and Demand Market Assessment** and **Appendix C – Export Impact Assessment** support the ability of the natural gas market to supply the quantity requested for export pursuant to the Licence.

## IV. EXPORT ARRANGEMENTS

11. Over the term of the requested Licence, the Applicant may export LNG from Canada in a number of capacities. For example, the Applicant may export LNG on its own behalf, as an agent on behalf of affiliates and third parties, and/or on behalf of customers.

12. Consistent with the representations of other long term LNG export licence applicants, obtaining a long-term licence such as that requested by the Applicant is important to continued development of the Project.

## V. TRANSPORTATION ARRANGEMENTS

13. Gas supply for the Project is expected to be transported by means of a new, proposed 42-inch diameter, 650 kilometer pipeline to be developed by the Applicant and experienced pipeline company developers. This new pipeline will tie into the eastern portion of the TransCanada PipeLines Limited Eastern Triangle near Iroquois, Ontario. Further information on this proposed pipeline can be found in **Appendix A – Project Description**.

14. The Project will also rely on new and expanded pipeline infrastructure as well as existing and currently underutilized pipeline infrastructure in Canada and the United States that transports natural gas from the WCSB to eastern markets. Further information on these pipeline options can be found in **Appendix A – Project Description**.

## VI. EXPORT IMPACT ASSESSMENT AND SURPLUS EVALUATION

15. To assess the impact of the export quantity proposed under the requested Licence, the Applicant retained Navigant Consulting Inc. ("**Navigant**"). In connection with this assessment, Navigant has prepared the following two reports, attached as **Appendices B** and **C** to this application, respectively:

    i. Supply and Demand Market Assessment (the "**S/D Market Assessment**"); and

    ii. Export Impact Assessment (the "**EIA**").

16. The S/D Market Assessment prepared by Navigant informs the assessment of the Surplus Criterion and is based upon Navigant's latest natural gas market forecast and experience and knowledge of Canadian and North American natural gas markets, including supply, demand, supply-demand balance, market conditions and evolving natural gas recoverable estimates. The key findings of the S/D Market Assessment include the following, among others:

    i. There is a strong outlook for both Canadian and North American natural gas markets characterized by ample, stable supplies and competitive, stable prices;

    ii. The key driver of this outlook is the abundance of the natural gas resource due to the shale revolution. For North America as a whole, currently estimated recoverable gas resources are sufficient to meet 146 years of annual North American natural gas demand at today's consumption levels. The key drivers of this overall 146-year resource life are the large resource lives of over one hundred years in the U.S. and up to 390 years in Canada. Even under the most conservative (and virtually impossible) assumptions in the S/D Market Assessment, where all approved and applied-for Canadian LNG projects (totaling over 40 Bcfd) are assumed to go forward and current net pipe exports of 5.0 Bcfd are also added to the total Canadian demand total, the Canadian natural gas resource would still have a life of almost 70 years;

    iii. The plentiful Canadian resource base, together with the highly integrated North American natural gas market, should ensure sufficient supplies to meet Canadian natural gas demands at competitive prices. Navigant's outlook is for reasonable long-term prices, remaining under $8.00 per MMBtu at Henry Hub through 2045, with Canadian prices lower. Navigant forecasts Alberta (AECO) hub prices to average less than $5.95 per MMBtu, and to remain at or below $7.00 per MMBtu through 2050, based on modeling that includes assumed North American LNG exports of 9.3 Bcfd;

iv. Not only is North America forecast to be a net exporter of natural gas, but Navigant also forecasts Canada to continue to be a net exporter of natural gas. Pipeline exports to the U.S. are forecast to be 5.5 Bcfd in 2050, resulting from forecast production exceeding Canadian domestic natural gas demand by more than 29 percent. Such a circumstance indicates the surplus nature of Canadian natural gas supplies, notwithstanding the relatively strong growth in Canadian gas demand (exceeding NEB forecasts by 5 percent in 2035) forecast by Navigant; and

v. Because of the integrated nature of the North American natural gas market, shale gas production growth has led to increased gas-on-gas competition that has already started to cause changes in traditional gas flow patterns across North America. An example is the displacement of Canadian natural gas supplies from traditional markets in the U.S. Northeast. Expected further displacements should increase the availability of Western Canadian gas in Canada, to the benefit of the Applicant as a buyer. In turn, the Applicant's demand will benefit Canadian producers as sellers in need of new markets.

17. As a result of its findings in the S/D Market Assessment, Navigant concludes that the significant volumes of natural gas available support an assessment that the quantity of natural gas to be exported from Canada by the Applicant does not exceed the surplus remaining after allowance for the reasonably foreseeable requirements for use in Canada, having regard to the trends in discovery of oil and gas in Canada.

18. Navigant's EIA concludes that Canadians are not likely to have difficulty meeting their energy requirements as a result of the exports contemplated pursuant to the requested Licence. The findings supporting this conclusion of the EIA include, among others:

i. The North American natural gas market, as one of the world's largest, has a long history of sophistication and performance – made up of key components of a well-functioning commodity market. This has allowed the market to be reliable over the years and, in fact has grown significantly over the last several decades;

ii. There is an extensive natural gas delivery network that includes both pipeline and storage networks which facilitate an integrated market structure that provides for a sophisticated and transparent physical and financial trading and price discovery market system across the continent and between Canada and the US;

iii. The North American gas market has performed well through both significant regulatory changes in Canada and in the US and during periods of upset as a result of natural catastrophe;

iv. The North American gas market is transformed and reinvigorated in a way that has made available abundant and economic gas in volumes not believed possible only a few years ago;

v. The exports proposed by the Applicant are small in size relative to the integrated Canadian and North American markets;

vi. The Canadian producing sector and resource base will be able to satisfy Canadian needs given the exports proposed by the Applicant;

vii. It is unlikely that Canadians will need to adjust their energy consumption patterns by means of energy conservation or switching to alternative fuels; and

viii. The likelihood of the exports proposed by the Applicant placing extraordinary demands on Canadian supply is remote and safeguards are in place in respect of such an occurrence.

## VII. RELIEF REQUESTED

19. The Applicant respectfully requests:

a) Pursuant to section 117 of the *NEB Act*, a licence authorizing the export of gas subject to the following terms:

i. **Term:** A period of 25 years commencing on the date of first export of LNG pursuant to the Licence;

ii. **Expiration:** The Licence shall expire 10 years from the date of Governor-in-Council approval of its issuance, unless the export of LNG has commenced on or before that date, or the Board otherwise directs;

iii. **Maximum Annual Quantity:** The quantity of LNG that may be exported in any 12-month period shall not exceed 11 MMt (natural gas equivalent of approximately 568.5 Bcf), subject to the annual tolerance;

iv. **Annual Tolerance:** In any 12-month period, the quantity of LNG that may be exported may exceed the maximum annual quantity by 15%;

v. **Maximum Term Quantity:** The quantity of LNG that may be exported over the term of the Licence shall not exceed 313.09 MMt (natural gas equivalent of approximately 16.18 trillion cubic feet). As demonstrated in **Appendix D – Export Volumes**, this quantity takes into account decreased volumes expected during the early stage of the Licence term as well as the requested annual tolerance;

vi. **Export Point:** The point of export from Canada shall be at the Export Point;

b) Relief from the information requirements set out in section 12 of the *Part VI Regulations*, except where those requirements are addressed within this application; and

c) Any further terms or relief as may be requested by the Applicant or as the Board may consider appropriate in the circumstances.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 27th DAY OF OCTOBER, 2014.

Michel G. Gagnon
President
GNL Québec Inc.

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