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National Energy Board  
517 Tenth Avenue, SW  
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Attention: Sheri Young, Secretary of the Board

Dear Ms. Young:

**RE: File OF-EI-Gas-GL-B275-2014-01 01  
Bear Head LNG Corporation ("Bear Head") 6 November 2014  
Application for a Licence to Export Liquefied Natural Gas and  
Import Natural Gas from the United States**

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**Reply to Heritage Gas Letter of Comment**

In accordance with the Board's letter dated April 1, 2015, this is Bear Head's Reply to the comments filed in connection with its application for an export licence dated November 6, 2014 ("**Application**").

Two parties filed comments on May 19, 2015. The Nova Scotia Department of Energy supports Bear Head's project and by implication, supports the granting of an export licence on the terms sought by Bear Head. Heritage Gas ("**Heritage**") takes no position on whether a licence should be granted, but identifies three areas of interest to it. This Reply will deal with each of these areas in turn.

**Impact on Maritimes and Northeast Pipeline ("M&NP") Capacity**

Heritage states that it requires capacity on the M&NP to deliver gas to its distribution system. M&NP is a Group 1, NEB regulated pipeline and Heritage is concerned about potential impacts of the Bear Head project on Heritage's ability to obtain capacity on that pipeline.

Bear Head has not made any arrangements with M&NP for Bear Head or its customers to make use of existing transportation system facilities. If any such arrangements were made with respect to existing or additional facilities on the M&NP system in the future, Heritage would have an opportunity to voice any concerns it might have at that time through the appropriate Board processes for review of tolls and tariffs and facilities additions.

Bear Head accepts that it will have to pay directly or indirectly through tolls for its share of any existing or new capacity on M&NP or any other system used to transport its gas. The result is that existing customers in Nova Scotia and New Brunswick such as Heritage stand to benefit significantly from increased utilization factors reducing unit costs on existing facilities and/or from access to new infrastructure made possible by the Bear Head project.

### **Sources of Natural Gas Supply to the Maritimes**

Heritage states that it expects that the decline in currently producing domestic offshore natural gas reserves will require shippers in the Maritime Provinces to find new supply resources. Bear Head agrees that with or without the Bear Head project, those shippers will have to look to new offshore discoveries or to new supply basins as a source for their future gas needs.

New discoveries offshore will only be developed if there is sufficient assured demand at a sufficient price to warrant the significant costs of bringing new reserves on stream in that environment. If the load and price in the Maritime Provinces are not sufficient to justify offshore development, then the region's gas supply will not be provided by offshore Nova Scotia development, but instead will have to come from other onshore sources in Canada or the United States. This could require reversal of the M&NP or the development of alternative new infrastructure. If it did, existing users like Heritage would have to pay the full cost of those initiatives unless new load can be developed in the Maritime Provinces.<sup>1</sup>

Development of a large new load in Nova Scotia will offer an opportunity to relieve natural gas users like Heritage from the adverse impacts described above. Bear Head expects to make a significant contribution to the costs of the infrastructure required to serve the Maritime Provinces and will make that market much more viable and attractive for both the producers of natural gas and the builders and operators of the midstream infrastructure necessary to transport that gas. As the Nova Scotia Department of Energy has aptly put it:

“the Bear Head project has the potential to underpin infrastructure to enable large volumes of natural gas to flow to Nova Scotia for both the domestic as well as LNG export markets. This will mean an opportunity for increased security of supply and liquidity in natural gas markets served by Maritimes and Northeast Pipeline including Nova Scotia.”<sup>2</sup>

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<sup>1</sup> For a more detailed discussion of the supply options available in eastern Canada, see the revised Schedule B to the Application filed November 21, 2014, ss. 6.6 beginning at PDF p. 36.

<sup>2</sup> Nova Scotia Department of Energy Letter of Comment in this proceeding, dated May 19, 2015, 2<sup>nd</sup> paragraph.



### **Development of Gas Infrastructure**

Bear Head agrees with Heritage that Bear Head's procurement plan will affect the manner in which Nova Scotia infrastructure develops and the resulting procurement options available to other gas users. Indeed, for the reasons described above, Bear Head is confident that, however its procurement plans evolve, there will be a positive impact both on gas procurement options available to other gas users in Nova Scotia and on the per unit cost of the infrastructure necessary to deliver that gas.

Shortly put, the Bear Head project offers an opportunity to relieve natural gas users like Heritage from the adverse impacts of declining supply from existing sources. By significantly increasing local demand, LNG development makes Nova Scotia a much more viable and attractive market for both the producers of natural gas and the builders and operators of midstream infrastructure necessary to transport it.

Bear Head is aware of and supports the Board's monitoring initiative with respect to Maritime gas markets<sup>3</sup> and the related matter of gas supply sourcing and infrastructure. This interest was most recently reflected in its December 11, 2014, "*Market Snapshot: Continuing High Prices in the Maritimes' Distinct Natural Gas Market*"<sup>4</sup> which alluded to pipeline bottlenecks and pipeline expansion plans. Bear Head believes that its project will make the achievement of these plans more viable.

The Board will have an opportunity to shape the future development of the pipeline infrastructure available to serve the Maritime Provinces through its regulation of any potential new facilities that may be required in Canada to serve those markets and through approval of tolls and tariffs on those facilities. The impact of specific infrastructure development proposals on interested parties will be the proper subject of future proceedings in connection with those proposals. However, the record of this proceeding can give the Board confidence that there are sufficient natural gas reserves in Canada to permit the proposed export while still meeting the reasonably foreseeable requirements of natural gas users in Canada. It can also be confident that on a regional basis, the options available to meet the needs of natural gas customers in Nova Scotia and New Brunswick will be enhanced by the proposed export.

In summary, Bear Head believes that its project will provide benefits to Heritage Gas in all three areas of interest identified in its May 19, 2015 letter. Indeed, Bear Head believes that this Reply, along with its Application and IR responses, demonstrates that the Bear Head project will benefit all natural gas customers in the Maritime Provinces by improving their options for obtaining an adequate supply of an important source of energy for years to come.

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<sup>3</sup> NEB, MH-2-2002, Province of New Brunswick, *Views of the Board*, at page 42.

<sup>4</sup> <https://www.neb-one.gc.ca/nrg/ntgrtd/mrkt/snpst/2014/12-02mrtmngmrkt-eng.html> (copy attached for ease of reference).

Subject to any additional requirements the Board may have, Bear Head understands the record in connection with this proceeding to be closed and looks forward to receiving the Board's decision with respect to this Application.

Yours very truly,

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