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Published By: NEWS COMMUNICATIONS since 1977

Wednesday June 10th, 2015

OTTAWA BRIEFED ON SEVERAL OIL SANDS ENVIRONMENTAL ISSUES LAST YEAR

The federal government last year found a number of environmental issues related to the Alberta oil sands, including contaminant levels that exceed guidelines, higher-than-expected atmospheric concentrations of chemicals, and a lack of regional species such as marten and fisher.

Natural Resources Minister Greg Rickford was briefed by his department in January on an environmental monitoring report conducted on the oil sands last year.

The briefing note for the minister, obtained under access-to-information law, highlights some issues in the oil sands that environmentalists and First Nations have complained about for years and have used to call for a slow down or halt to oil-sands growth.

"Naturally high erosion of sediment during the spring and summer or from rain caused metal concentrations in the Athabasca River and phosphorus and nitrogen in the water to exceed existing guidelines," the briefing note said, referring to contaminants probably resulting



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from the 2014 Alberta floods. The briefing note relayed the findings of an oil-sands monitoring report issued jointly in mid-December by the federal and Alberta governments. The report is publicly available on a government website but was not previously reported on by news media.

The memo for Mr. Rickford said some

wetlands water samples showed iron and cadmium concentrations that "exceeded established safe limits for aquatic life." It said concentrations of contaminants called polycyclic aromatic hydrocarbons, or PAHs, in tailings pond water suggest their evaporation is leading to "a more significant source of atmospheric PAH concentrations

than previously recognized." PAHs can be released into the air, water and soil through the mining and processing of bitumen-rich oil sands, and their evaporation from tailings ponds was identified as an issue in early 2014 in a University of Toronto study. While highlighting issues with

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contaminants and species at risk, the briefing note did not directly link environmental impacts to the oil sands, noting that "oil-sands-related pollutants in the environment are generally not at concentrations that give cause for concern." It added: "Although some pollutants exceeded existing guidelines, no evidence has been uncovered that directly links these to oil sands development."

Amin Asadollahi, oil sands program director at the Pembina Institute, a think tank, said the briefing note does not serve the minister well.

"It's quite concerning that the federal government is aware of but continues to downplay environmental impacts of oil sands,"

Mr. Asadollahi said. "It's time for the federal government to acknowledge impacts of oil sands on the environment, enforce its own rules, and ensure that the sector is actually developed in a responsible manner."

Jacinthe Perras, a spokeswoman for Natural Resources Canada, said in a statement that the government is supporting technological innovation to improve oil-sands environmental performance.

The federal and Alberta governments are working together to deliver a "comprehensive, integrated, world-class environmental monitoring system for the oil-sands region," she said.

Environmentalists and First Nations have criticized oil-sands projects for seepage and leakage of chemicals from tailings ponds, affecting communities downstream.

Alberta's Athabasca Chipewyan First Nation is fighting new pipeline constructions as it draws attention to oil-sands contaminants found in water and in hunted animals such as muskrat and moose.

Wildlife that prefer old forest habitat, such as marten, fisher and bay-breasted warbler, "were found to be less abundant in the oil-sands region than would be expected in an undisturbed area," the briefing note added.

Environmentalists have been similarly drawing attention to a shrinking caribou population in the oil-sands area. Mr. Asadollahi said there are close to 90 species at risk in the region.

Greg Stringham, vice-president of oil sands and markets for the Canadian Association of Petroleum Producers, said oil producers work under rigorous monitoring by the Canada-Alberta Joint Oil Sands Monitoring program (paid for mostly by industry), the Alberta Environmental Monitoring, Evaluation and Reporting Agency, as well as the Alberta Biodiversity Monitoring Institute.

"We think the tailings ponds are actually safe and working the way

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they're supposed to," Mr. Stringham said, adding that the oil producers are planning reclamation of the ponds as mines are finished. "The reason we do all that monitoring is to have the very earliest indication that might require a change in behaviour."

Last October, Mr. Rickford told oil and gas executives in a private strategy meeting in Banff, Alta., that they need to do more advocacy of oil-and-gas projects, conduct environmental research and collaborate more with aboriginal communities.

"You are fighting an uphill battle for public confidence," Mr. Rickford's speaking notes said, according to documents obtained by Bloomberg through access-to-information. He added: "Our messages are not resonating." The new NDP government in

Alberta under Premier Rachel Notley pledged in its campaign to strengthen environmental standards in the province.

The party platform said an NDP government would step up "monitoring and enforcement to protect Alberta's water, land and air. We will build standards based on independent science and international best practices."

EAST COAST LNG PROJECTS LINING UP TO GET IN THE GAME

Nova Scotia's Bear Head project could be first Canadian terminal to ship gas overseas

The number of publicly proposed liquefied natural gas (LNG) projects along Canada's East Coast has not yet grown to the extent of the West



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Coast – there are currently six, versus 21 in B.C., according to Daily Oil Bulletin tracking – but one of the project proponents says LNG could start sailing overseas from Nova Scotia by 2019, which could make it the first export project in Canada.

Peters & Co. Ltd. believes that at least one project on the Canadian East Coast is likely to proceed at some point. Canadian West Coast projects are assumed to have a capital intensity of around \$1,250 per million tonnes per annum (mtpa) for the first phase (two trains) and \$1,000 per mtpa for subsequent

phases (a third and/or fourth train). In comparison, Canadian East Coast projects incorporate capital costs of \$950 to \$1,000 per mtpa while Gulf Coast and U.S. West Coast projects are roughly \$650 per mtpa and \$1,000 to \$1,100 per mtpa, respectively.

U.S. West Coast and Canadian East Coast projects benefit from less remote locations, allowing them to maintain better capital efficiencies than the Canadian West Coast projects, according to Peters.

Many of the Canadian East Coast export licence filings have

targeted the Marcellus shale play in the northeast United States as a possible source of supply.

Three of the top projects in the East Coast are described here.

Bear Head LNG

Nova Scotia's Bear Head LNG, which is being proposed by Australia's Liquefied Natural Gas Ltd., could be one of the first – if not the first – to begin exporting LNG from Canada, with a planned in-service date of 2019.

Bear Head filed an updated registration document with Nova Scotia Environment (NSE). The company anticipates NSE approval of this update in the second quarter of this year. The NSE approval would be the last of the 10 initial federal, provincial and local regulatory approvals needed to construct an LNG export facility on the Strait of Canso in Nova Scotia.

Despite the project being located in Canada, the proponents filed an application with the U.S. Department of Energy (DOE) requesting authorization to export up to 440 billion cubic feet per year of U.S. natural gas to Canada, and up to eight million tonnes per annum of LNG from Canada to free trade agreement (FTA) and non-FTA nations.

"I do not think this is really a political issue per se," said John Godbold, chief operating officer and project director for Bear Head LNG. "What we have said in the past, and I still believe it to be true, is that what is occurring is that the DOE is trying to determine how their process for U.S. projects fits with those in

Canada. Secretary [Ernest Moniz] has even stated publicly that all projects will be treated the same.

"The other issue is how to bridge NAFTA [North American Free Trade Agreement] and the Natural Gas Act with any potential NEPA [National Environmental Policy Act] requirements. The latter is a difficult issue given that the Canadian projects do not have any NEPA approvals since they are permitted in Canada. The Bear Head DOE non-FTA application was the most robust LNG export application filed and did a good job of bridging these various regulations."

In filing its 25-year export licence with the National Energy Board (NEB) last year, Bear Head LNG outlined potential sources of supply in Canada and the U.S., including the prolific Marcellus shale.

"We are planning for FID [final investment decision] in 2016," Godbold said. "In support of this, Bear Head has already received nine of the 10 initial permits required for construction. The tenth is expected in Q2 of this year."

Europe, India and other Asian markets are the main targets for LNG from Bear Head, he added.

"It is important to realize the shipping distances from Bear Head to other LNG markets globally. For example, the shipping distance to Malaysia from Bear Head is equal to that from British Columbia," Godbold said.

Pieridae/Goldboro LNG

Pieridae Energy (Canada) Ltd. also filed an application with the

NEB to import natural gas from the U.S. and to export it as LNG from a terminal near Goldboro, in Nova Scotia's Guysborough County.

"We already have applied for [a] non-FTA licence and we have had no direct opposition to the [export] of gas from Canada," said Alfred Sorensen, president and chief executive officer of Pieridae, who was previously president of Galveston LNG Inc., the parent company of Kitimat LNG before it was sold.

FID isn't expected until 2016, and the company is targeting Europe as its

main customer for the time being. In June 2013, it entered into a 20-year sales agreement with E.ON Global Commodities SE, a subsidiary of one of the world's largest investor-owned power and gas companies, to deliver approximately five million tonnes per annum of LNG from Goldboro LNG to E.ON.

The project in 2014 received environmental approval from the Nova Scotia government.

Canaport LNG

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indigenous North American natural gas supply, Spanish company Repsol S.A. applied to the NEB to export gas from New Brunswick, where it currently operates the Canaport LNG regasification plant.

The company also is seeking regulatory approval to import gas from the U.S.

Repsol, which late last year announced the takeover of Talisman Energy Inc., has identified Western Canada and the northeastern U.S. as supply regions for the proposed liquefaction facility. The Talisman acquisition will add a land position in Western Canada and the Marcellus for Repsol.

In 2013, Repsol sold a set of LNG assets to Royal Dutch Shell PLC for \$4.4 billion cash, but the deal excluded the Canaport LNG import facility, which reportedly failed to attract interest because booming North American gas production had eroded its value. The Canaport LNG regasification facility is a partnership between Repsol (75%) and Irving Oil Ltd. (25%).

The regasification facility received its first shipment of LNG in 2009.

Repsol is seeking to secure long-term feed gas supply for the LNG liquefaction project from Western Canada and/or the U.S. as the main supply regions.

ALTAGAS INCHES CLOSER TO FINAL DECISION ON KITIMAT

A \$500 million liquefied natural gas (LNG) export facility is inching

closer to a final investment decision as early as the end of this year.

The proposed project is headed by the Douglas Channel LNG Consortium, a partnership led by AltaGas Ltd, a midstream company known in the Peace as the operator of the Younger Natural Gas Liquids Extraction Plant in Taylor and the Bear Mountain Wind Park in Dawson Creek.

AltaGas applied to the National Energy Board (NEB) June 1 on behalf of the partnership for a licence to export LNG near Kitimat, British Columbia.

The export licence, if approved, will last for a term of 25 years beginning on the date of the first LNG export.

The NEB originally granted the export licence to BC LNG Co-operative LLC in February 2012, but it was revoked after that company dissolved in January 2015.

Douglas Channel LNG partners include Japan's Idemitsu Joint Venture Limited Partnership, Belgium-based EXMAR NV and EDF Trading Limited, a subsidiary of Electricite de France S.A.

The proposed LNG export project involves two phases.

The first would see the construction of a floating liquefaction facility with the capacity to receive 110 million cubic feet of gas per day. The second will include more floating liquefaction facilities that would increase export capacity to one billion cubic feet per day.

The company intends to make a

final investment decision on the first phase by the end of 2015 and begin deliveries of LNG in 2018.

"It is estimated that trillions of cubic feet of natural gas exist in the Montney Shale gas play located in Northwest Alberta and Northeast British Columbia," a statement on the company's website said. "There is a growing need for gas processing capacity and pipelines as drilling activity increases in the area. AltaGas plans to meet this need by delivering gas processing and natural gas liquids extraction

services to our customers." Because the export licence had been previously approved, it is likely another license will be granted by the NEB.

Gas for the first phase of the project will be transported from the Western Canadian Sedimentary Basin in Northwest Alberta and Northeast B.C. via the existing Pacific Northern Gas Ltd. (PNG) pipeline system, which runs from Summit Lake to Prince Rupert, with lateral transmission pipelines extending to Kitimat.

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The second phase of the project will require an expansion of the PNG pipeline system.

PNG has engaged with the B.C. Environmental Assessment Office on the proposed PNG Looping Project, which would upgrade its gas transmission capacity by twinning the existing pipeline.

Subject to regulatory environmental project approvals, construction of the PNG Looping project could commence as early as later this year, with an earliest in-service date in late 2016.

AltaGas holds a long-term lease agreement with the Haisla Nation on District Lot 99, which is located about eight kilometres west of Kitimat, B.C.

The licence will expire 10 years after the date it is granted if gas exports have not begun.

"The project is well positioned to be an early exporter of LNG off the West Coast of Canada, with unique competitive advantages," said John Rittenhouse, EDF Trading executive in a February press release.

The Douglas Channel LNG partnership's two-phased export facility is one of 21 projects that propose liquefying Canadian natural gas and shipping it to Asia.

AltaGas has also proposed British Columbia's first natural gas liquefaction facility for Dawson Creek, which will be for local consumption.

Douglas Channel LNG is one of three proponents expected to make final investment decisions this year. However the others — Pacific NorthWest LNG and Woodfibre LNG — are facing increasing turbulence.

SAMSUNG TO BUILD THREE SHUTTLE TANKERS FOR CANADIAN OFFSHORE OIL FIELD

Samsung Heavy Industries has received KRW370.2bn (\$328.6m) contract from a shipper in the Americas, to build three shuttle tankers.

The 49m-wide by 293m-long tankers, which will have a carrying

capacity of 155,000DWT each, will be used in an offshore oil field off the east coast of Canada.

Widely used in the North Sea, the east of Canada and the sea of Brazil, the shuttle tankers are designed to transport crude oil extracted from marine oil fields to storage bases on the ground.

The dynamic positioning system allows the shuttle tankers to withstand waves, winds and currents.

Samsung plans to deliver the three oil tankers, priced at around \$110m per unit, by February 2018.

Samsung Heavy Industries member said: "We have been able to maintain the largest share of the global shuttle tanker market thanks to our advanced technology and rich experience. Shuttle tankers are high-value products.

"We expect to actually win an additional order, as this contract includes one optional unit."

Samsung Heavy Industries has so far signed \$2.9bn worth of orders for 11 oil tankers, ten container ships and two LNG carriers, among others.

June 8 2015	Drilling	Down	Total	Utiliz
AB	66	453	519	13%
BC	14	68	82	17%
MB	1	18	19	5%
SK	26	105	136	19%
EC	0	2	2	0%
NT	0	0	0	0%
Total	107	630	758	14%
Last Year	247	558	805	31%

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