



JUSTIN TRUDEAU OPEN TO LNG SHIPS ON NORTHERN B.C. COAST

But Liberal leader says oil pipeline, supertankers are a no-go in 'fragile ecosystem'

Federal Liberal leader Justin Trudeau said Monday his mind is closed to oil tankers plying the waters of northern B.C. but open to shipping of liquefied natural gas as well as increased oil tanker traffic through Port Metro Vancouver — on the condition proper reviews are conducted.

In an interview with The Vancouver Sun, Trudeau said that the Harper Conservative government could have saved everyone a lot of time and trouble by nixing the Enbridge Northern Gateway project, emphasizing "the Great Bear Rainforest is not a place for an oil pipeline."

He said some 20,000 British Columbians make their living on the water on the north coast, a "fragile ecosystem that needs to be respected and protected and the impact of a fishing boat is very different from the impact of a supertanker."

While oil shipping holds the prospect of massive environmental damage,

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LNG is seen as a safer alternative, including by First Nations people.

Trudeau said he recently visited Hartley Bay at the mouth of Douglas Channel, where native leaders opposed to Northern Gateway told him they understand the need for economic development and have fewer concerns with LNG.

Trudeau added that Vancouver and its surrounding waters have a long industrial past and that it's important for Canada to transport its resources to market. "This has always been a working harbour and there's always going to be a certain amount of economic activity that is essential. People have to decide where that balance lies."

He said the key is for the government to ensure a fair and open process that allows British Columbians to properly weigh the economic and environmental risks and reach a decision in the collective best interest — something not happening under the Harper government. The Liberal environmental platform

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Executive Director

Western Trade Training Institute (WTTI) is seeking an Executive Director to lead the organization to further business growth. The Executive Director reports to the Board of Directors and has primary responsibility for all aspects of the private vocational training institute. Key priorities include business growth and expansion of industry training and the current delivery of the Crane & Hoist Apprenticeship program for Saskatchewan Apprenticeship and Trades Certification Commission (SATCC).

The Executive Director is responsible for leading the institute by establishing and maintaining effective and harmonious working relationships with instructional staff, personnel within other industries and organizations, and other constituent training groups. This position will ensure operational deliverables are met and exceeded, resource allocations are managed, and solid budgetary decisions are made based on the business requirements.

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Western Trade Training Institute delivers Saskatchewan Apprenticeship and Trades Certification Commission (SATCC) Level Crane Operation and related sub trade training to business and industry across the province, Alberta and Manitoba. Parkland College owns 100% shares of Western Trade Training Institute.

For a more detailed description of the position, please visit www.parklandcollege.sk.ca.

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unveiled Monday promises to modernize and "rebuild trust" in the National Energy Board and to ensure that environmental assessments are "evidence-based and allow the public to meaningfully participate."

Said Trudeau: "People need to see that government is establishing a level playing field and a process whereby concerns will be aired and addressed and a decision, when it's ultimately taken, will be viewed ... with integrity at the end of the line."

Karen Wršten, executive director of the Living Oceans Society, said the NEB review of Kinder Morgan's planned twinning of its Trans Mountain pipeline will be "largely concluded" by the Oct. 19 federal election, which raises the welcome prospect of reopening that process should Trudeau get elected. About five double-hulled tankers

ship oil out of Kinder Morgan's Westridge terminal each month in Burnaby. That number would increase to 34 tankers a month.

Wršten noted that oil shipping in the Salish Sea puts endangered resident killer whales at risk in their critical habitat, while LNG shipping in the north poses a threat to marine species such as threatened fin whales. "Wherever it is, more traffic means more noise and disruption," she said.

Recalling how he used to sail in English Bay as a 13-year-old, "weaving in and about the tankers," Trudeau also pledged to increase Canada's coastal marine protected areas from 1.3 per cent to five per cent by 2017 and 10 per cent by 2020.

Trudeau reiterated his commitment to reopen the Kitsilano coast guard

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base to better assure public safety.

He added that he would allow federal researchers to speak publicly about their work — something the Conservative government has long been accused of blocking. Openness, accountability, sharing, and building on each others' research is essential, he said, and a way for governments to come to better decisions.

The Liberal environmental plan also promises to:

- Enact the Cohen Commission recommendations on declining sockeye salmon stocks in the Fraser River, conduct a review of the Conservatives' changes to the Fisheries Act, and restore \$40 million in ocean science and monitoring programs.
- Suspend admission fees to national parks in 2017 for the

150th anniversary of Canadian Confederation, starting in 2018 make admission free for all children and any person who has become a new Canadian citizen within the previous 12 months, and restore \$25 million in funding cuts to Parks Canada.

- Attend the United Nations Conference on Climate Change in Paris later this year, and within 90 days, hold a first ministers meeting on combating climate change and reducing Canada's carbon emissions.
- Phase out subsidies for the fossil fuel industry while offering tax incentives to generate more clean technology investments.
- Establish the Canada Green Investment Bond to support both large and community-scale renewable energy projects.
- Work with the U.S. and



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Mexico to develop a North American clean energy and environmental agreement.

Mike Hudema, a climate campaigner with Greenpeace Canada, said Trudeau's initiatives "lack the significant measures" needed for Canada to do its part to avoid a "growing climate crisis and avert catastrophe." What's needed are clear targets and policies, not vague statements, he said.

He added Trudeau's policies do reflect an "overwhelming opposition to tanker traffic in B.C." and that oil sands pipelines are having an effect on the national election race.

Erin Flanagan, analyst at the Alberta-based Pembina Institute, praised Trudeau for emphasizing the urgency of reducing carbon emissions and investing in clean

technologies. According to Analytica Advisors, Canada's global market share in clean technology has declined by 41 per cent since 2005, making it the third-largest loser of market share since 2008. To reverse this trend, Canada needs to have comprehensive policies in place that support the sector, the institute states.

**ALBERTA ENERGY
ROYALTIES AND
CARBON POLICY
BACK UNDER THE
MICROSCOPE**

A week of change brings uncertainty to the province's energy industry

First, a change to the energy regulator, then a carbon tax change, now a royalty review. It was a busy week for Alberta's new government and a week full of



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uncertainty for the energy sector.

On Friday morning, Alberta's Energy Minister Marg McCuaig-Boyd announced the beginning of the provincial government's royalty review.

Dave Mowat, the chief executive of ATB Financial, a provincially owned bank, will lead the panel, which will submit a report to government by the end of the year.

The announcement was scant on details. There are no terms of reference and no other panel members have been named.

What was made clear in the announcement is that the royalty review and the climate strategy panel announced on Thursday will be designed in tandem.

"We've been encouraged

both by the premier and by industry to look at industry as a whole," said McCuaig-Boyd.

In practical terms, that means the government will be cautious about imposing new costs on industry in a time when profits are essentially non-existent. Analysts suggest that any increase in carbon taxes will cause a decrease in the amount of royalties that a company has to pay.

"You're sort of scavenging," said David Sawyer, an environmental economist with EnviroEconomics.

"You're cannibalizing with no net change. You're reducing your royalty payments because your carbon costs have gone up. So the government's position isn't necessarily better off as a result."

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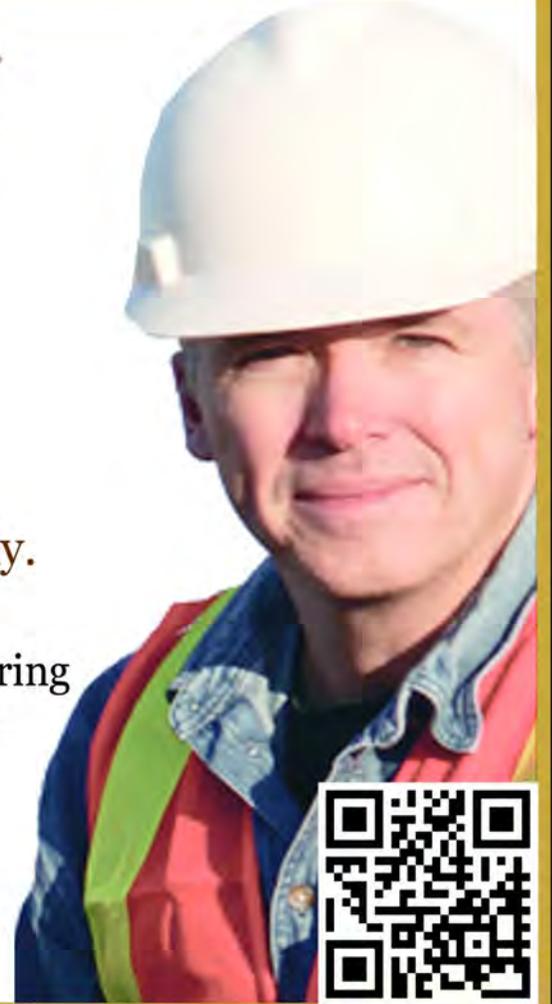
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Alberta's energy industry, but it remains cautious.

The Canadian Association of Petroleum Producers said in a statement that the new climate change rules and price on carbon, plus Alberta's recent corporate tax increase have the potential to add almost \$800 million to industry costs over the next two years, which puts investment and jobs at risk.

"We think any royalty review needs to take into account all the changing costs that are coming to our industry," said Tim McMillan, president of CAPP, "whether they be the corporate tax changes or the future panel on carbon."

During the election campaign, the NDP said it would conduct a careful review of Alberta's royalties, to ensure a "full and fair return to the people of Alberta.

That left the impression that the NDP felt that Albertans were not getting their fair share, although McCuaig-Boyd wouldn't commit to that.

"There was a concern from Albertans — are we getting our fair share, could it be different, could it be better? So we're delivering on that promise and reviewing."

Alberta's current energy royalty regime is complex, based on the price of oil and natural gas, the age of a particular well and its monthly production. When oil prices are high, Alberta can collect up to a 40 per cent royalty from a well. When prices are low, that royalty can drop to zero.

Oilsands royalties largely depend on whether the project has earned back its capital costs.

Saskatchewan politicians have been eagerly courting Alberta energy companies to move investment dollars one province over.

McCuaig-Boyd said she is not losing sleep over that possibility. "In talking to industry, I don't get that sense. They're excited about knowing the outcomes from this, and I think that they're willing to wait. I was talking to the president of Imperial Oil yesterday and that was the sense I got from him. They want to know the answer, but are willing to let the process unfold."

For a time, that's likely true.

"From our point of view, both of those [climate strategy and royalty review] are creating uncertainty for our members' ability to raise capital to invest in our economy here in

Alberta, said McMillan of CAPP. "So having them moving forward in a timely matter is important."

CANADA'S ECONOMY SHRINKS AGAIN IN APRIL AMID OIL SHOCK

The economy shrank 0.1 per cent in April, the fourth monthly decline in a row — adding to concerns the country could be headed for a recession.

The contraction, reported by Statistics Canada on Tuesday, was worse than what experts were anticipating, with the consensus calling for a modest expansion of 0.1 per cent.

"Forecasters continue to underestimate the downside pull of plunging activity in the oil and gas sector," Doug Porter, BMO's chief economist, said.

Oil and gas activity, the biggest engine for economic growth and job creation in recent years, dropped 2.6 per cent in April and is down 6.4 per cent for the year, Statscan said. Oil prices ranged between \$52 (U.S.) barrel and \$62 in the month, or roughly half what oil was trading at last fall before crude's dramatic slide.

The economy has now posted

month-to-month declines since the beginning of 2015, with the latest reading raising the spectre of Canada falling into back-to-back quarters of negative growth — a technical recession.

"The slight fall in GDP in April, coupled with the weak hand-off from the prior quarter, leaves us facing the probability that Q2 GDP could also be negative," Andrew Grantham, an economist at CIBC, said.

David Madani, Canadian economist for Capital Economics, said the chance of technical recession is now "quite likely."

CENOVUS SELLS ROYALTY BUSINESS FOR \$3.3-BILLION TO TEACHERS

Cenovus Energy Inc.'s sale of its royalty lands for about \$3.3-billion to Ontario Teachers' Pension Plan puts in place a key part of the company's strategy to buffer the impact of the dramatic fall in the price of crude.

The oil sands giant said on Tuesday it has reached an agreement with Teachers' for the sale of its Heritage Royalty Limited Partnership, which holds about 4.8 million gross acres of



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royalty interest and mineral fee title lands in Alberta, Saskatchewan and Manitoba. Added to the sale package are a gross overriding royalty of 5 per cent on Cenovus' oil recovery project in Weyburn, Sask. and a 3 per cent royalty on the Pelican Lake heavy oil property in northern Alberta, as well as a royalty on some of its remaining conventional production.

"We believe this agreement captures significant value for Cenovus shareholders from our royalty and fee lands business," president and chief executive officer Brian Ferguson said.

"The proceeds from this sale will strengthen our balance sheet and provide us with greater resilience during these uncertain times as well as the flexibility to invest in organic projects with strong returns."

Teachers' said in a separate news

release the deal is set to close by the end of July, subject to the usual regulatory approvals.

Cenovus – like its sister companies in the oil patch – also faces uncertainty in the form of regulatory and other changes under the recently elected New Democratic Party government.

The company assessed a number of options to generate value from the royalty business, including a possible initial public offering, but decided that the deal with Teachers' was the way to go in order to "maximize value for Cenovus shareholders."

The transaction will "significantly" improve Cenovus' net-debt-to-capitalization ratio of 27 per cent, the company said.

At the same time, consolidated production, on a pro forma basis, will be reduced by 7,800 barrels of

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oil equivalent per day of third-party royalty interest volumes, it said.

AltaCorp Capital analyst Nicholas Lupick said in a note on Tuesday he is raising his price target on Cenovus shares to \$28 from \$26 to reflect the \$2-per-share net asset value accretion to be gained from the divestitures.

Last week, Cenovus confirmed it was in talks with a potential buyer of its royalty lands in Western Canada.

Like many of its peers, Cenovus is struggling to cope with the

shift from high growth mode to a challenging environment of lower commodity prices, competition from U.S. shale developers and the threat of higher carbon levies.

Other moves by Cenovus include restricting capital investment, with spending limited to advanced-stage projects; cost-cutting; and slower oil sands production.

Earlier this year, the company went to market to raise at least \$1.5-billion to help fund its already-cut 2015 budget.

In February, Cenovus said it planned

to cut 15 per cent of the workforce – about 800 jobs – after posting a major quarterly earnings loss.

CETA TO BRING GOOD TIDINGS FOR ATLANTIC CANADA, SAYS EY

While the oil and gas industry is dealing with crude price challenges, good things are on the horizon for the industry in Atlantic Canada, according to Ernst & Young's latest edition of East Coast Offshore.

According to the report, optimistic

estimates predict the ratification of the Comprehensive Economic and Trade Agreement between Canada and the European Union will occur in 2016, which could mean that legislation respecting CETA commitments could be in play by late 2016 or early 2017.

"With current trade patterns bolstered by liberalization, a new, more efficient, borderless and integrated North Atlantic offshore industry is on its way to becoming a reality," the report says.

The report also highlights how

Canadian businesses have benefited from the country's strong trade relationship with the U.S., but that the Canadian government is now hoping to create trade opportunities elsewhere.

Unlike Canada's net export position with the U.S., Atlantic Canada in particular relies on imports from Europe.

"Atlantic Canada's resource economy depends on European imports for production inputs, but has not historically capitalized on exporting product to the

EU market," the report says. CETA, EY says, could change this and help boost Eastern Canada's exports across the Atlantic.

CONTINENTAL DIVIDE: COMPARING CANADIAN AND AMERICAN LNG

Over the last five years, as the shale gas revolution has massively increased the estimated gas reserves in North America, various proposals have been made to construct LNG export facilities, both in Canada

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and the US. There have been over 20 proposals advanced in Canada and over 30 in the United States.

We are now at the point where final investment decisions (or FID) are being made and construction is starting, at least in the United States, with certain Canadian projects possibly not far behind.

Speaking recently at an energy conference in Houston, the US Secretary of Energy, Ernest Moniz, summarized the state of LNG export construction in the United States by noting there are five major liquefaction plants already under construction. Secretary Moniz then went on to say:

"[W]e anticipate becoming big players...we're going to influence the whole global LNG market...certainly in this decade there's a good chance that we will be LNG exporters on the scale of Qatar...which is today's largest LNG exporter."

The situation is different in Canada, at least for now. No LNG export facility in Canada has made an unconditional final investment decision to proceed, nor are any under construction.

Woodfibre is currently undergoing an environmental assessment under the BC Environmental Assessment Act and it will likely not make a final investment decision or commence construction until sometime in or after Q3 or Q4 of 2015.

Douglas Channel either has all significant environmental and construction-related approvals or it is not required to obtain them due to its small size. It also has all off-take arrangements in place that are needed to make a final investment decision and to commence construction by the end of 2015. Douglas Channel is only waiting for the National Energy Board to issue another export licence (the first one was revoked as a result of proceedings under the Companies' Creditors Arrangement Act affecting its predecessor), as well as a commercial determination to proceed.

The Petronas-led Pacific NorthWest LNG has made a final investment decision, albeit a "conditional" one

and the approval of a Project Development Agreement by the BC Legislature in the fall of 2015 and the receipt of an environmental assessment certificate under the Canadian Environmental Assessment Act. The environmental assessment is still underway, but it has been delayed as a result of concerns regarding the project's impact on fish habitat. There are also still issues that have to be resolved with affected First Nations. Pacific NorthWest LNG remains hopeful that these issues can be resolved by the end of this year so that construction can commence.

All of these US projects, except for Corpus Christi, are brownfield conversions of existing LNG import and re-gasification facilities. And all, except for Dominion's Cove Point project, are located on the US Gulf Coast, in the middle of the largest, most sophisticated petrochemical infrastructure on earth.

These US LNG projects have several advantages compared to their BC counterparts, which at least partly explains why they are under construction while the BC LNG projects are not – at least not yet.

First, brownfield conversions of existing LNG import facilities can re-use or modify much of that pre-existing LNG infrastructure. As a result, costs for a brownfield conversion can run as low as \$500 million to \$750 million per million tons per annum (MTPA) of LNG produced and appear to have a median cost of no more than \$800 million per MTPA. By contrast, costs for a greenfield liquefaction facility are generally in the range of \$900 million to \$1.4 billion per MTPA.

Second, in contrast to all of the significant BC projects that have been proposed (including the projects led by Petronas, Shell and Chevron), the early stage US projects are not integrated – i.e. the project proponents generally do not own the gas reserves to be fed through the liquefaction facility or the export terminal, nor do they own or have to finance the construction of new pipelines to connect gas

reserves with their projects. Instead, the early stage US projects are usually merchant facilities providing only liquefaction and processing services on a fee for service or tolling basis, and their customers usually own the gas to be processed and are responsible for any transportation of the gas that is required.

The structure and pricing of these types of merchant LNG processing contracts has allowed project proponents to tie prices to the cost of gas rather than index the LNG to the price of oil, as is the case in BC. These arrangements have proven to be attractive to many of the world's major gas buyers. Each of the early stage US projects has been able to secure off-take arrangements with a number of highly creditworthy and experienced buyers. All of this has made the US projects bankable far sooner and with greater ease than the various BC projects.

Moreover, the US projects have been able to focus on building a liquefaction facility or converting a regasification facility along with some relatively minor ancillary infrastructure. By contrast, the major integrated projects on the BC coast require the acquisition of massive gas reserves, the exploration and development of those reserves and the construction or financing of new pipelines covering the better part of 1,000 km from gas reserves in northeast BC – often over several mountain ranges, in hostile climates and with access to only a relatively constrained and expensive labor force.

This is reflected to some extent in

the capital costs for the different kinds of projects. The early stage US projects generally have capital costs of between \$5 to \$10 billion, which is approximately \$550 million to \$1 billion per MTPA. In contrast, the Globe and Mail recently pegged the likely capital costs for the first phase of the Pacific NorthWest LNG project at approximately \$36 billion, broken down as follows:

- \$5.2 billion to acquire Progress Energy, and its northeastern BC gas reserves, in 2012
- at least \$12 billion to drill for gas in northeastern BC
- \$11.4 billion for the first two trains of a liquefaction facility on Lelu Island, BC, with an initial estimated capacity of approximately 12 MTPA of LNG
- \$6.7 billion in related pipeline projects.

Whether calculated just for these initial phases, or at full build-out, this would imply capital costs for the Pacific NorthWest LNG project somewhere between \$2 billion and \$3 billion per MTPA.

Of course, the integrated LNG projects proposed for Canada, once fully developed, have the potential for a significantly greater return compared to the merchant LNG projects in the US, but there is also more risk involved. We do not know which of these models will be superior over the long term; however, what we do know now is that, over the short term, the US merchant model has proven to be cheaper, more attractive to off-takers and demonstrably easier to execute.



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