Duncan, Kate EMPR:EX

From: Mungall, Michelle EMPR:EX
Sent: March 28, 2019 5:02 PM
To: Duncan, Kate EMPR:EX
Subject: FOI response re: LNG agreement correspondence
Attachments: Scan_20180319.pdf; ATT00001.htm

From: Meggs, Geoff PREM:EX
Sent: March 19, 2018 5:10 PM
To: Andy Calitz <Andy.Calitz@lngcanada.ca>
Cc: Van Meer-Mass, Kate PREM:EX <Kate.VanMeer-Mass@gov.bc.ca>; Wright, Don J. PREM:EX <Don.J.Wright@gov.bc.ca>; Mungall, Michelle EMPR:EX <Michelle.J.Mungall@gov.bc.ca>; Nikolejsin, Dave EMPR:EX <Dave.Nikolejsin@gov.bc.ca>
Subject: Fw: Advice to Cabinet - Signed Letter

Dear Mr. Calitz,

Attached please find Premier Horgan's letter regarding your proposed project.

Best wishes

Geoff Meggs,

Chief of Staff

From: Van Meer-Mass, Kate PREM:EX
Sent: Monday, March 19, 2018 1:56 PM
To: Meggs, Geoff PREM:EX; Lloyd, Evan GCPE:EX
Subject: Fwd: Advice to Cabinet - Signed Letter

Please find attached the signed letter. Geoff please confirm that you are sending to Andy calitz.

Kate

Sent from my iPhone

Begin forwarded message:

From: "Cavanagh, Judy PREM:EX" <Judy.Cavanagh@gov.bc.ca>
Date: March 19, 2018 at 1:54:08 PM PDT
To: "Van Meer-Mass, Kate PREM:EX" <Kate.VanMeer-Mass@gov.bc.ca>
Subject: Advice to Cabinet - Signed Letter

HI Kate,

Please confirm receipt and that all is good to go. We'll leave it at the s.15 for Evan to bring back to Victoria.

Judy

Judy Cavanagh | Executive Director, Operations and Strategic Initiatives
Vancouver Cabinet Office | Office of the Premier
P: 604-775-1600 | **E:** judy.cavanagh@gov.bc.ca

BRITISH
COLUMBIA

March 16, 2018

Mr. Andy Calitz
Chief Executive Officer
LNG Canada
400 4th Avenue SW
Calgary AB T2P 2H5

Dear Mr. Calitz:

Re: LNG Canada (being a joint venture of Shell Canada, PetroChina Company Limited, Korea Gas Corporation, and Mitsubishi Corporation) Liquefied Natural Gas (LNG) Project

I write further to the ongoing discussions between Government of British Columbia (Province) officials, and representatives of First Nations, LNG Canada and federal government (Canada) officials relating to LNG Canada's proposed natural gas liquefaction and export facility located in the area of Kitimat, British Columbia (the "LNG Facility").

Based on those discussions the Province believes that this project, if it proceeds, presents a very significant opportunity for the people of British Columbia, LNG Canada and its joint venture partners.

As you know I've identified four key conditions to ensure British Columbia benefits from any proposed liquefied natural gas (LNG) development:

1. Proposals must include express guarantees of jobs and training opportunities for British Columbians;
2. Proposals must provide a fair return for our resource;
3. Proposals must respect and make partners of First Nations; and
4. Proposals must protect our air, land, water, including living up to our climate commitments.

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Regarding First Nations partners, all provincial Cabinet ministers have in their mandate letters of July 18, 2017 the following direction:

> *"As part of our commitment to true, lasting reconciliation with First Nations in British Columbia our government will be fully adopting and implementing the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), and the Calls to Action of the Truth and Reconciliation Commission."*

LNG Canada has worked very constructively to satisfy all four conditions and we expect that you will continue to advance the project in that spirit. We acknowledge LNG Canada's efforts to achieve global leadership in low-emissions technology and operations. This is important as the above-mentioned conditions include a commitment on our part to put in place a climate-action strategy that will meet British Columbia's greenhouse-gas reduction targets. (For greater clarity, our campaign commitment was to reduce BC's greenhouse gas emissions by 40 percent below 2007 levels by 2030, and by 80 percent by 2050.)

LNG Canada and the Province have jointly undertaken financial analysis of LNG Canada's proposed project in British Columbia by developing an operational and financial model that has, in part, formed the basis of a mutual understanding upon which the Province is prepared to make commitments to initiatives as outlined in this letter.

While the specifics of these initiatives continue to be developed, it is intended that they will contribute to achieving a cost reduction outcome that is beneficial to LNG Canada's project and industry as a whole. However, as the Province is relying on information and assumptions provided by LNG Canada, and LNG Canada ultimately controls the evolution of the project, its costs and its assumptions, the Province cannot represent, warrant or guarantee that a specific production cost reduction estimated during the joint financial analysis will be achieved.

Nonetheless, the Province is prepared, subject to the conditions below, to take actions that, if applied to the joint model described in Attachment 1, would help achieve outcomes described in the attached summary of assumptions and potential project cost reductions that was jointly prepared by officials of LNG Canada and the Province as of March 12, 2018 (Attachment 1).

Accordingly, if I am satisfied that LNG Canada has conclusively decided on or before November 30, 2018 to proceed with the construction of the LNG Facility and associated investments, I am prepared to work with my cabinet colleagues to direct responsible officials to prepare orders, regulations or Legislation as necessary for consideration by the provincial Minister of Finance, Treasury Board, Cabinet or to be introduced into the Legislative Assembly, as necessary, to establish measures (the Measures) to reduce LNG Canada's LNG production costs in BC that are associated with the LNG Facility. I will do so, on or before November 30, 2018, once I am satisfied that LNG Canada has by that date conclusively decided to proceed with the construction of the LNG Facility and associated investments.

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The Measures, which are further described in Attachment 1, which would be applicable to other industries in similar circumstances in British Columbia include:

1) Enabling an LNG facility to receive transmission voltage service from the British Columbia Hydro and Power Authority (BC Hydro) under rate schedule 1823 and pursuant to the terms and conditions of BC Hydro's Electric Tariff Supplements 5 and 6 with respect to electricity provided by BC Hydro to the LNG Facility for ancillary power. As part of this, the Province would work with BC Hydro to address LNG Canada's reliability concerns in recognition of operational safety issues that may result from unplanned supply interruptions in the production of LNG at the LNG Facility.

2) Provide an exemption from the Provincial Sales Tax (PST) on construction of the LNG Canada facility conditional on LNG Canada entering into an agreement with the province to make a series of LNG Operating Performance Payments totalling $596 million. This exemption would apply to all goods and services directly related to the construction of the LNG Facility, and would be implemented based on the existing exemption for manufacturing and processing facilities. The exemption would be valid for the first seven years of construction or until the first two production trains at the LNG Facility reach a point of substantial completion, whichever comes first. The LNG Operating Performance Payments would be payable upon the occurrence of specific events (e.g. a final investment decision, and every year or part thereof that the facility produces and ships LNG). The term of the agreement would be 20 years, commencing when the LNG Canada facility begins operations, with an initial payment due upon the LNG Canada making a positive final investment decision.

3) Allow for LNG facilities to participate in the proposed Industrial Incentive under the Clean Growth Incentive program outlined in *BC Budget 2018*. The Industrial Incentive will be sensitive to level of carbon pricing around the world and could represent 100 percent of the carbon tax paid beyond $30 per tonne based on facility emissions intensity and sector benchmarks; and

4) Removal of the provincial LNG Income Tax (provincial Natural Gas Tax credit to remain).

Based on operational and financial information, estimates and assumptions provided by LNG Canada, including assumptions in relation to British Columbia's current and expected taxation and royalty framework, the referenced joint financial analysis and model appear to indicate that the summation of the Measures noted above could be expected to reduce LNG Canada's projected costs of LNG production at the LNG Facility by an amount equivalent to approximately USD $0.13 USD/MMBtu. This estimate assumes a 10 percent discount rate applied to project costs over a term of 40 years.

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Nothing in this letter can be construed as placing any limit on the discretion of the British Columbia Lieutenant Governor in Council or any other person in the exercise of a power provided to them under an enactment, or providing any limit on, or relief from, any obligation of the Government of British Columbia regarding upholding or fulfilling the honour of the Crown.

Of course, the ultimate decision as to whether regulations or legislation will be enacted is up to the Lieutenant Governor in Council and the Legislature, respectively, and I therefore cannot provide assurance with respect to that outcome.

With respect to other matters that may arise in connection with the subject matter of this letter, my officials would be pleased to discuss them with you.

The Measures outlined in this letter represent the actions the Province is prepared to take to facilitate LNG Canada in making a positive final investment decision in relation to this project. I encourage LNG Canada to continue conversations with the Federal government on federal actions required to help LNG Canada in reaching a positive final investment decision.

I trust this letter will assist LNG Canada in deciding to proceed with development of the LNG Facility.

Sincerely,

John J. Horgan

John Horgan
Premier

cc: Honourable Michelle Mungall
Minister of Energy, Mines and Petroleum Resources

Honourable Carole James
Minister of Finance

Honourable George Heyman
Minister of Environment and Climate Change

Attachment 1:
Evaluation and Implementation of British Columbia Measures

Joint Model

Under the terms of a non-disclosure agreement, LNG Canada and the British Columbia provincial government with its consultant contractor (the Province), have jointly undertaken financial analysis of phase 1 of LNG Canada's proposed project to construct and operate a LNG Facility in British Columbia by developing an operational and financial model – the "Joint Model".

The Joint Model has formed the basis for a mutual understanding between LNG Canada and the Province of:

- LNG Canada's costs to construct, supply with natural gas, and operate the LNG Facility;
- potential Measures on the part of the governments of British Columbia and Canada that could reduce those costs; and,
- the likely impact of those Measures on LNG Canada, its partners and suppliers.

The Joint Model was created using information provided by LNG Canada, and the Province. On February 28, 2018, representatives of the Province met with LNG Canada to review a range of the assumptions that were used in the Joint Model. During this meeting, LNG Canada demonstrated that a number of the most significant assumptions used in the Joint Model were generally in line with materials that LNG Canada had used to inform its joint venture participants.

Costs and revenues were modeled over the five years during which the LNG Facility would be constructed and over the 40 years of its planned operational life. To allow for consistency and comparability, costs and revenues were unitized to US dollars per million British Thermal Units ($/MMBtu) and calculated on a net present value basis using a 10 percent discount rate. An exchange rate of $1.30 Canadian dollars per US dollar was used for currency conversion and a 2 percent rate of inflation was assumed over the term of the model. Each stage of the project's value chain (from upstream production, to pipeline transportation, to liquefaction, followed by shipping) was assumed to earn a 10 percent rate of return on equity (the holder of title to the natural gas in Canada was modeled as receiving a 2% markup on cost).

On March 12 2018, the Province shared a version of the Joint Model with LNG Canada titled "20180309 LNGC Financial Model CONFIDENTIAL (Shared).xlsm". The valuations used in this letter and attachment for the Measures are based on this version of the Joint Model.

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British Columbia Measures

The Joint Model has been used by the Province and LNG Canada to estimate the potential impact of the Measures on the cost of LNG production at the LNG Facility. Table 1 summarizes the cost impact of each of the Measures estimated using the Joint Model. The estimated cost impact is dependent on the assumptions used in the Joint Model. The Province cannot represent, warrant or guarantee that a specific production cost reduction estimated during the joint financial analysis will be achieved.

Table 1: Joint Model Estimated Cost Impacts of the Measures

Provincial Measure	Estimated Cost Reduction Impact USD / MMBtu (March 12, 2018 Joint Model)
Electricity Rates	-0.019
Provincial Sales Tax	-0.040
Clean Growth Incentive Program Industrial Incentive	-0.024
LNG Income Tax	-0.048
Total	-0.131

Measure 1) Electricity Rates

Modeled Impact: USD $0.019 per MMBtu of LNG Canada production cost

Key Elements:

- The Province would rescind the Domestic Long-Term Sales Contracts Regulation issued under the Clean Energy Act to eliminate the LNG energy charge and would provide direction to the BC Utilities Commission, if necessary, to require it to approve the amendment of BC Hydro's Electric Tariff to remove the restriction on service of LNG customers under rate schedule 1823.
- This Measure would allow LNG Canada to receive service in accordance with BC Hydro's regulated rates and tariffs for transmission voltage interconnection and supply. The rate for electricity supply pursuant to Tariff Supplement 5 and Rate Schedule 1823 is lower than the rate that would be currently available to the LNG Facility.
- The cost of required upgrades and reinforcements to the BC Hydro transmission system would be treated in accordance with Tariff Supplement 6. This means that certain costs for which LNG Canada was directly responsible for under the LNG rate schedule, and which are considered system reinforcement under Tariff Supplement 6, would be paid for by BC Hydro.

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Measure 2) Provincial Sales Tax

Modeled Impact: USD $0.040 per MMBtu of LNG Canada production cost

Key Elements:

- LNG Canada and the Province would negotiate an agreement whereby LNG Canada would make LNG Operating Performance Payments to the Province (the Agreement).
- The Province intends to structure payments under the Agreement to be operating in nature under Canadian Generally Accepted Accounting Principles.
- Upon execution of the Agreement, Province would introduce legislation or regulations to exempt from PST all goods and services directly related to the construction of the LNG Facility, in a manner similar to the existing exemption for manufacturing and processing facilities.
- The exemption would be valid for the first 7 years of construction or until the first two production trains at the LNG Facility reach a point of substantial completion, whichever comes first.
- Under the Agreement, LNG Operating Performance Payments would be payable upon specific events (e.g. at LNG Canada's final investment decision and for every year or part thereof that the LNG Facility produces and ships LNG).
- The term of the Agreement would be 20 years, commencing when the LNG Facility begins operations, with an initial payment due upon the LNG Canada reaching a positive final investment decision;
- The schedule of payments the Province proposes for the Agreement is set out in Table 2 below. Payments would total CAD$596 million.

Table 2

Event	**Annual LNG Operating Performance Payment ($ Canadian)**
Final Investment Decision	$42 million
First production and shipment of LNG Years 1 – 18 of operation	$1 million
First production and shipment of LNG Years 19 and 20 of operation	$268 million

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Measure 3) Clean Growth Incentive Program Industrial Incentive

Modeled Impact: USD $0.024 per MMBtu of LNG Canada production cost

Key Elements:

- Legislation would be introduced to enable the Clean Growth Incentive Program announced in *Budget 2018*
- A benchmark for world leading production would be established for the purposes of establishing eligibility for an incentive payment. This will replace the existing LNG benchmark (which requires a LNG facility to be in compliance with the limit on an annual basis) under the *Greenhouse Gas Industrial Reporting and Control Act (*GGIRCA*)*.
- The existing LNG emissions limit under GGRICA is 0.16 tonnes of CO2e per tonne of LNG produced. Based on the information provided by LNG Canada, it is our understanding that the LNG Facility will have an emissions factor of 0.15 tonnes of CO2e per tonne of LNG produced.
- Based on the Province's previous reviews to establish the facility emission intensity limit, LNG Canada is expected to exceed the benchmark for world leading production and would, when it enters service, be eligible for a refund of 100% of carbon tax paid above $30 per tonne, if no comparable facilities with lower emissions intensities are in service at that time.
- The benchmark may become more stringent over time if comparable facilities with lower emissions intensities come into operation globally.
- The Province does not anticipate that any greenhouse gas emissions associated with the supply of electricity by BC Hydro to support ancillary loads at the LNG Facility would impact LNG Canada's qualification for the Industrial Incentive when the project enters service.

Measure 4) LNG Income Tax

Modeled Impact: USD $0.048 per MMBtu of LNG Canada production cost

Key Elements:

- The LNG income tax would be repealed.
- The corporate income tax credit related to the cost of gas supplied to LNG facilities would be retained.