

MINISTRY OF ENERGY, MINES AND PETROLEUM RESOURCES

BRIEFING NOTE FOR INFORMATION

I PREPARED FOR: Don Wright, Deputy to the Premier

II ISSUE: LNG Canada and Coastal GasLink and Government's four conditions for LNG Development

III BACKGROUND:

The Premier's mandate letter to the Minister of Energy, Mines and Petroleum Resources directed the Minister to ensure British Columbians benefit from liquefied natural gas projects by requiring them to meet the following four conditions:

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

At LNG Canada's Final Investment Decision announcement on October 2, 2018, the Premier stated that he was of the view that LNG Canada and its associated pipeline, Coastal GasLink, had met these conditions. It is the expectation of Government that the projects continue to do so as they move through their construction phase and into operation.

This note provides the current status of LNG Canada as it relates to the four LNG framework conditions.

IV DISCUSSION:

Condition 1: Jobs and Training

LNG Canada will create up to 10,000 jobs during construction and up to 950 permanent jobs once operations are underway. Coastal GasLink will provide between 2000-2500 jobs during construction with 16-35 permanent positions.

For LNG Canada, over \$330M in contracts and subcontracts have been approved with local businesses with \$175M of that provided to indigenous businesses. More than 250 people (of which 38% were Indigenous) have been employed by LNG Canada or its subcontractors to date. LNG Canada has a "hire local first" approach—provided the candidates are competitive and meet operational and safety requirements—with an initial focus on the local area, and then expanding to other parts of British Columbia and the rest of Canada. It is expected that more detail may be provided directly to the Premier from LNG Canada.

For Coastal GasLink, \$620M in contracts have been awarded to northern Indigenous businesses for camps, clearing, medical, and security services. It is anticipated that another \$400M in additional contract and employment opportunities for Indigenous and local British Columbia communities will be awarded during pipeline construction.

Both companies have invested in training programs to support workforce development. These programs have included driver training, early childhood education certification, trades scholarships, job fairs and seminars.

Given the commitments made to local and Indigenous businesses and the investments in training, LNG Canada continues to meet the condition to guarantee jobs and training for British Columbians.

Condition 2: Fair Return on Investment

LNG Canada is expected to generate about \$23B in public revenue over 40 years – new funds available to invest in health care, schools, child care and other key public services.

On average, the Economic Forecast Council estimates that BC's economic growth will be higher than previous projections, primarily due to final investment decision of LNG Canada.

Provincial revenues will be from taxes, royalties and from BC Hydro. ^{s.13; s.17}
s.13; s.17

Operating payments will total \$596M and will be made over the first 20 years of plant operations – this is equivalent to the estimated value of the PST exception.

s.13; s.17

Condition 3: Partner with First Nations

Both LNG Canada and Coastal GasLink have reached agreements with elected First Nations at the project site and along the pipeline route.

LNG Canada has entered into agreements with all affected First Nations: Haisla, Kitselas, Gitga'at, Gixaala and Kitsumkalum. The Haisla Nation, in particular, has expressed strong support for the project and Haisla businesses have already been involved in various aspects of development of the facility, including site preparation, forestry work and environmental services. Through the life of the project, LNG Canada will provide billions of dollars to First Nations in capacity building, training and education, contracting and employment and community payments.

Coastal GasLink have agreements with all 20 elected First Nations along the route: Stellat'en First Nation, Saik'uz First Nation, Cheslatta Carrier Nation, McLeod Lake Indian Band, Saulteau First Nations, Kitselas First Nation, West Moberly First Nations, Lheidli T'enneh First Nation, Nadleh Whut'en Indian Band, Burns Lake Indian Band, Blueberry River First Nations, Halfway River First Nation, Doig River First Nation,

Wet'suwet'en First Nation, Yekooche First Nation, Nee Tahi Buhn Indian Band, Skin Tyee First Nation, Witset First Nation, Nak'azdli Whut'en, Haisla Nation.

The Hereditary chiefs affiliated with the Office of the Wet'suwet'en and the Unist'ot'en have expressed opposition to the project. On December 14, 2018, the Supreme Court of British Columbia granted Coastal GasLink an interim injunction against members of the Unist'ot'en camp where a gate is restricting access across the Morice River Bridge. There is an enforcement order in place providing direction to the RCMP to enforce the terms of the injunction, which resulted in 14 arrests in early January. Coastal GasLink has made efforts to meet with hereditary chiefs, including the chief representing the Unist'ot'en, to discuss the project, key issues and to seek a path forward.

s.13; s.16

Condition 4: Protect air, land and water, including climate commitments

LNG's Canada project is the world's cleanest in terms of greenhouse gas emissions intensity and will be accommodated within the government's legislated emissions reduction targets announced in Fall 2018. This will support British Columbia's efforts to have the greenest LNG in the world and position British Columbia as the low carbon LNG of choice for global markets. This further supports the objectives of Clean BC as this project can provide the economic engine to transition the economy from fossil fuels.

LNG Canada, and Coastal Gaslink have their Environmental Assessment Certificates and major permits in place, which required consultation with affected First Nations (including the Wet'suwet'en hereditary chiefs). The Province has a strong regulatory regime, which includes compliance and enforcement of the conditions of the certificates and permits.

The role of the Province is to continue to ensure and promote compliance of all major projects with the conditions of their authorizations. Complaints are taken very seriously and will result in an investigation by the regulator. Both LNG Canada and Coastal GasLink have taken steps to respond to incidents of non-compliance and implemented corrective measures to address them.

Continued dialogue between the companies and the regulators is expected to facilitate the continued protection of British Columbia's environment.

V CONCLUSION/PROPOSED RESPONSE:

The provincial government remains of the view that the LNG Canada project meets the four LNG conditions:

- LNG Canada continues to be expected to generate about \$23B in public revenue over 40 years – new funds available to invest in health care, schools, child care and other key public services.
- LNG Canada and Coastal GasLink have already made considerable contracting commitments with local British Columbia businesses, including Indigenous businesses. Local and Indigenous hiring has begun on both projects.

- LNG Canada and Coastal GasLink are continuing to implement their agreements with all of the elected First Nations in the project area and along the pipeline. The Province encourages them to work with all First Nations, including Wet'suwet'en hereditary chiefs, to develop greater understanding and partnerships.
- LNG's Canada project is the world's cleanest in terms of greenhouse gas emissions intensity and has been accommodated within the government's plan to meet legislated emissions reduction targets announced last fall. The strong British Columbia regulatory regime will continue to provide oversight to support and protect British Columbia's natural resources.

DRAFTED BY/CONTACT:

Rachel Shaw
Executive Director
LNG Canada Implementation
Secretariat
250-507-6047

APPROVED BY:

Dave Nikolejsin, DM

LNG Investment Fiscal Framework



March 2019

Opposition Parties Briefing

Context – Competitiveness and Joint Economic Model Study

A joint operating/financial model was developed by Province and LNGC for the Kitimat Project:

- Included estimates of Project's revenues and costs over 40 years on a nominal and net present value basis
- Analyzed in the context of competitiveness (e.g. U.S. Gulf coast) – found competitiveness gap of up to 20 cents/MMBtu
- Estimated that combined provincial measures could lead to 13 cents/MMBtu reduction in Project costs over 40 years
- Remainder of gap was for LNGC to close with federal government (e.g. tariffs and accelerated depreciation, etc.)
- Province's LNG Investment Fiscal Framework does not warrant or guarantee that its measures will produce benefits estimated in the joint model, as LNGC and the market control most variables

Premier's March 2018 Investment Fiscal Framework Commitments

Commitment subject to receiving LNG Canada's (LNGC) notice of positive final investment decision (FID) by November 30, 2018 – received October 1, 2018

Commitment to prepare for Cabinet or Legislature's consideration 4 Measures intended to help improve the Project's competitive position:

1. Access to BC Hydro's industrial (instead of LNG) electricity rate
2. Provincial Sales Tax (PST) exemption for the construction of the LNG facility, along with separate Operating Performance Payments Agreement with Province
3. Repeal of *Liquefied Natural Gas Income Tax Act* and re-introduce a natural gas income tax credit
4. Allow LNG facilities to participate in Clean Growth (now CleanBC) Industrial Incentive Program

Actions Related to LNG Canada's Positive Final Investment Decision in October 2018

Measure 1: Electricity Services:

- Regulation changes made effective October 2, 2018
- Provides BC Hydro industrial electricity rates and some related transmission infrastructure consistent with other industries

Measure 2: Provincial Sales Tax (PST):

- Regulation changes made effective October 2, 2018
- Scope of exemption includes LNG facility; export docks; storage and adjacent construction work camp
- Expires earlier of 7 years or 2 liquefaction trains ready for production
- Estimated exemption value is \$596 million and is replaced with future Operating Performance Payments

Actions Related to LNG Canada's Positive Final Investment Decision in October 2018

Measure 3: Introduce legislation that will:

- Repeal the *Liquefied Natural Gas Income Tax Act (LNGITA)*
- Repeal the *Liquefied Natural Gas Project Agreements Act*
- Implement a natural gas tax credit under the *Income Tax Act*

New: *Income Tax Amendment Act, 2019*

Sections

4.

- Repeals *Liquefied Natural Gas Income Tax Act* and the *Liquefied Natural Gas Project Agreements Act*

1,2,3

- Retains natural gas income tax credit to encourage companies to pay BC corporate income taxes

173(1) — Available to qualifying corporations for taxation years that begin on or after January 1, 2020

172,

177-181 — Qualifying corporations own natural gas entering an LNG facility

172 — Principal business in BC is oil and gas exploration, development, refining, marketing or liquefaction of natural gas

173(3) — Credit calculated at 3% of the cost of natural gas and can reduce effective BC corporate income tax rate from 12% to 9%

173(2) — Unused credit can be carried forward if a corporation continues to be a qualifying corporation

177-205, — Province will administer the tax credit
206-213

Natural Gas Income Tax Credit – Comparison

Sections

Consistent with previous government's LNGITA design

Key differences with credit in new legislation:

- Cost of gas rules:

- Simplified calculation

- No differential amounts for multiple pipelines

- Major LNG facility:

- Limits credit eligibility to major facilities that meet a minimum production capacity

- Qualifying corporation:

- Includes only corporations whose principal business in BC is oil and gas exploration, development, refining marketing or liquefaction of natural gas

- Provincial administration instead of federal

- Higher BC corporate income tax rate (12% Jan 2018)

Actions Related to LNG Canada's Positive Final Investment Decision in October 2018

Measure 4: CleanBC Incentive Program

- Program to be implemented by:
 - Enacting regulations under *Greenhouse Gas Industrial Reporting and Control Act* and other policy changes
 - A regulation under the *Carbon Tax Act* to facilitate incentive payments
- Intent is to provide:
 - Up to 100% of incremental carbon tax paid beyond \$30/metric tonne of CO₂e if facility exceeds (meets) world leading intensity standard (benchmark reviewed every 5 years)
 - Reduced or eliminated incentives if carbon pricing in competing jurisdictions is similar to BC's carbon price

Operating Performance Payments Agreement

- *Term* – ends 20 years after commercial in-service
- *Performance Payments* – commence after in-service:
 - Triggered with production/shipment of 1st tonne of LNG annually
 - Payments total \$596 million (nominal) – equal to estimated PST exemption benefit
 - Low payments early – balloon payments in last 2 years
- *Project Measures Certainty*:
 - Measures in place by June 30 (possible extension to December)
 - No changes to Measures during Agreement Term
 - If Measures changed and harm Project, relief remedies available under Agreement – capped at foregone future revenue payments otherwise received by Province (max. \$596 million)
- *No Indemnity* – expressly stated in Agreement

LNG Canada Project and Provincial Returns

