From:	Kristianson, Eric GCPE:EX
To:	Haslam, David GCPE:EX; Crebo, David GCPE:EX; Nikolejsin, Dave EMPR:EX; Wanamaker, Lori FIN:EX; Plecas, Bobbi ENV:EX; Aaron, Sage PREM:EX; Holmwood, Jen PREM:EX; Howlett, Tim GCPE:EX; Frampton, Caelie ENV:EX; Sanderson, Melissa EMPR:EX; Wright, Don J. PREM:EX; Kennedy, Christine PREM:EX; Foster, Doug FIN:EX; Meggs, Geoff PREM:EX; Gibbs, Robb GCPE:EX; Lloyd, Evan GCPE:EX
Subject:	Final QA
Date:	Thursday, March 22, 2018 9:32:09 AM
Attachments:	LNG Framework QA Final.docx
Importance:	High

Group,

This is the final QA. Due to late additions, it has not been edited and likely contains typos. However it is content stable.

Eric Kristianson
ADM Strategic Issues
GCPE
778-584-1248

LNG Framework Q&A

Q0: **How does LNG Canada's project compare to PNW LNG?**

A: Government established 4 conditions under which it would support LNG projects in BC.

With respect to First Nations, the PNW LNG project faced considerable opposition from affected First Nations whom the previous government dismissed as a "ragtag group" In contrast, LNG Canada has made significant efforts to garner the support of First nations and will continue to do so.

With respect to environmental impacts, PNW LNG would have produced substantially more emissions annually than LNG Canada. Additionally, the PNW LNG project would have produced greater emissions intensity (0.23) than LNG Canada (0.15). Moreover PNW LNG faced considerable challenges with respect to its impacts on salmon and marine mammals.

With respect to employment, the projects are similar size and would have required similar job numbers. However, PNW LNG proposed to employ Temporary Foreign Workers for up to 70% of its workforce, while 95% of LNG Canada workforce will be comprised of Canadians.

Comparing the revenues that government would have received from PNW LNG is difficult because the project was cancelled and economic conditions have changed. However, if the LNG Canada project proceeds, BC will receive tens of billions in revenues over the life of the project.

Q1: Why did you call the reduction of LNG Income Tax from 7% to 3.5% a sellout, when you are proposing to eliminate it entirely?

A: The existing LNG Income Tax is not an efficient or effective means for generating returns to British Columbia. And its poor design has been identified as a serious detriment to investment in British Columbia. In fact the tax was structured in such a way that the proponent would not have paid any LNG Income Tax until after it had recovered its capital costs – which could be decades.

The LNG Income Tax was confusing to industry and was not transparent to taxpayers. Indeed, the tax was dropped from 7% to 3.5% with little explanation.

Our government intends to do things differently. We will introduce legislation to repeal this tax and instead utilize a number of existing tax and royalty measures to ensure that British Columbians receive a fair return. Under our framework LNG Canada will contribute tens of billions in taxes and royalties to the BC economy over the life of the project.

Q2: **You criticized the Petronas deal as a sellout for not generating a fair return for taxpayers for their resource Why then, did you cut a deal with LNG Canada?**

A: It's very difficult to compare the return government could have seen under the PNW LNG project to that which we expect under the new fiscal framework. The previous deal was based on different gas prices and a different global market.

What we are creating is a framework that provides a good return to British Columbia for its natural gas resource and a fair return to investors. We believe this will allow us to get closer to a positive final investment decision later this year.

A2 It is also worth noting that LNG Canada will produce fewer emissions, is based in a better location and has more support from First Nations.

Q3: **Why are you planning to exempt LNG Canada from the PST?**

A: Proponents building other types of manufacturing facilities are exempt from the PST on input costs. Under our new framework, PST exemption will apply to LNG facilities. However, proponents will have to enter into an agreement with government, whereby the proponent (in this case LNG Canada) would pay annual Operating Performance Payments over a 20-year period. Total payments will be equivalent to the amount otherwise paid as PST during the 7 year construction period. This agreement benefits both LNG Canada and the Province

Q4: Why did you eliminate a tax (LNG IT) and leave the company with a tax credit on the income tax (Natural Gas Tax Credit)?

A: The existing LNG Income Tax is not an efficient or effective means for generating returns to British Columbia. And its poor design has been identified by other governments and industry in Asia as a serious detriment to investment in British Columbia.

The LNG Income Tax was confusing to industry and was not transparent to taxpayers. Indeed, the tax was dropped from 7% to 3.5% with little explanation.

Our government intends to do things differently. We will introduce legislation to repeal this tax and instead utilize a number of existing tax and royalty measures to ensure that British Columbians receive a fair return. Under our framework LNG Canada will contribute tens of billions in taxes and royalties to the BC economy over the life of the project.

The government will introduce legislation to repeal the Act and government will rely on a number of existing tax and royalty measures to ensure that British Columbians receive a fair return.

The Natural Gas Tax Credit has been retained as part of a suite of measures aimed at improving BC's competitiveness and as a tool to use BC natural gas in the liquefaction.

Q5: **You criticized earlier projects for employing TFWs. How many TFWs will LNG Canada employ?**

A: We expect that if the project proceeds, up to 5% of the workforce will be made up of temporary foreign workers and 95% will be Canadians. We expect LNG Canada to seek to bring this small percentage of TFWs to fill jobs for which unique skills are required. In contrast the PNW LNG project proposed to source as much as 70% of its workforce from outside Canada.

Q6: **Kitimat LNG, PNW LNG (Petronas), Woodfibre are currently permitted projects...how can you prevent them from proceeding?**

A: Government has set out a framework that is available to any proponent interested in a resource development or industrial project. In the case of LNG, the previous government developed unrealistic expectations about the scope of opportunity in BC and in the global market. That said, all new industrial projects, including the proposed LNG Canada project will be evaluated to determine if they can fit within BC's legislated emissions targets.

A2 The climate plan is under development. It is our intention to have a credible plan that has room in it for the continued growth of our economy and jobs. This project, if built, will be the lowest emissions from any large LNG project in the world. There will be impacts but we are not stepping back from our targets.

However, government is committed to achieving its climate goals and as a result it's hard to imagine any subsequent LNG project fitting into our climate plan unless it used extremely low-emission technology and extensive electrification.

Q6B **So will LNG Canada effectively be the last LNG project permitted under government climate strategy?**

A: Any new project, LNG or otherwise, will have to fit within BC's climate changes strategy and the fiscal framework will be there.

Q7: Who are the proponents?

A: Shell Canada (50%), Korea Gas Corporation (KOGAS) (15%), Mitsubishi Corporation (15%), and PetroChina Company Limited (20%).

Q8: Is there a pipeline connecting to the facility?

A: Yes - the Coastal GasLink Pipeline project. Coastal GasLink Pipeline Ltd. is a wholly-owned subsidiary of TransCanada PipeLines Limited. The pipeline was issued an Environmental Assessment Certificate from the BC Government in October 2014, with 32 conditions.

Q9: Does LNG Canada have export approval from Canada?

A: Yes. The National Energy Board granted LNG Canada with exporting rights to ship for 40 years, with an annual volume of 26 million tonnes of LNG.

Q10: What's the estimated investment of LNG Canada?

A: LNG Canada has indicated that its proposal will include a direct investment of $40 billion (CDN).

Q11: What are your government's conditions for the LNG industry?

A: Proposals must include express guarantees of jobs and training opportunities for British Columbians;
Proposals must provide a fair return for our resource;

Proposals must respect and make partners of First Nations; and

Proposals must protect our air, land, water, including living up to our climate commitments.

Q12: Does LNG Canada have free prior and informed consent from affected First Nations in order to move this project forward?

A: Support for the facility has been strong in Kitimat and with First Nations communities. The Haisla Nation (where the facility will be located) fully endorse LNG Canada. That said, government has informed the proponents that they need to continue working to address the concerns of First Nations.

Q13: What are the economic benefits for First Nations if this project moves forward and which First Nations bands will benefit?

A: Many First Nations along the pipeline route also support the project, and agreements remain in place with specific benefits for those along the proposed route. To date, LNG Canada has invested an estimated $60 million on agreements with First Nations.

Q14: You said LNG must meet four conditions. How does this project meet the condition on the environment while Pacific Northwest LNG did not?

A: The Carbon Tax will increase to $50/tonne – before any plant comes online. Under the new measures introduce in the budget, the LNG industry will pay the carbon tax just as any other industry that qualifies for the Clean Growth Incentive initiative.

LNG Canada has committed to 0.15 tonne of greenhouse case per tonne of LNG, which will be below the benchmark established as cleanest facility in the world (0.16). In contrast, Pacific Northwest LNG forecast their emissions to be considerably higher at 0.23 per tonne

In addition, the federal government is establishing new requirements for methane, meaning upstream methane emissions will be reduced by 45%. Provincial regulations to reduce fugitive methane emissions are in development.

LNG Canada is intending to procure most of its natural gas from the south part of the Montney Basin where there are options to electrify operations. In contrast, the Pacific Northwest LNG feedstock was to be sourced mostly from the north part of the Montney Basin where electrification was not an easy option.

Q16: In a letter to the CEAA, the NDP opposed Pacific Northwest LNG saying the project has "unacceptable high and inadequately regulated greenhouse gas emissions." How is this project any different? How will GHGs be better regulated now?

A: The Carbon Tax will increase to $50/tonne – before any plant comes online. The LNG industry will pay the carbon tax just as any other sector, based on the provisions of the recently announced Clean Growth Incentive initiative.

LNG Canada has committed to 0.15 tonne of greenhouse case per tonne of LNG, which will be below the benchmark established as cleanest facility in the world (0.16). In contrast, Pacific Northwest LNG forecast their emissions to be considerably higher at 0.23 per tonne

In addition, the federal government is establishing new requirements for methane, meaning upstream methane emissions will be reduced by 45%. Provincial regulations to reduce fugitive methane emissions are in development.

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Q17: You opposed Bill 2 - the government's "world's cleanest LNG" legislation – saying it does not apply to 70% of GHG emissions in the LNG lifecycle (upstream). You said that the 70% upstream must be included to be credible.

A: The Carbon Tax increase applies all sectors based on the provisions of the recently announced Clean Growth Incentive initiative. Upstream emissions will be taxed unless they demonstrate they are 'the best in the world'. Most of the feedstock for LNG Canada is expected to come from the south part of the Montney basin where aggressive electrification is already taking place. Further, methane emissions will be regulated directly to ensure a 45% reduction in methane by 2025, consistent with the federal approach to methane reduction.

Q18: Why are you using the Energy Intensive Trade Exposed provision (Clean Growth Incentive Program) to support LNG?

According to the Climate Leadership Team report:

"The [LNG] sector also faces some important challenges that we have accounted for in designing our recommendations. North America now has abundant supplies of relatively low cost natural gas, so B.C. is competing with a number of new suppliers for a limited market. Our recommendations to reduce the PST (generally by 1 basis point and entirely on electricity rates) and make available transitional support for emissions-intensive, trade-exposed sectors are intended to address this reality – particularly if B.C.'s climate policy materially exceeds the stringency of our competitors."

The Clean Growth Incentive program is designed for all large industrial emitters who compete with jurisdictions that do not pay carbon taxes.

The Climate Leadership Team in their 2015 report made a recommendation (#5c) to establish a mechanism like the Clean Growth Incentive Program that allows the price signal of the carbon tax to be maintained while putting in place competitiveness measures for industries that compete globally against industry in jurisdictions with little or no carbon tax. All industrial emitters will be eligible to participate in the Clean Growth Incentive Program.

All emitters will pay the carbon tax. If emissions hit a global benchmark as the world's cleanest, like the LNG Canada facility is expected to do, emitters will be entitled to a rebate on the carbon tax above $30/tonne. The more the emissions are above the global benchmark, the less of the carbon tax the emitter will receive as a rebate – consistent with the polluter pay principle. In this way, government is encouraging global leading performance in GHG reductions for all industry including LNG.

This approach is designed to avoid what's referred to as 'carbon leakage', meaning an increase in carbon dioxide emissions in one jurisdiction as a result of an emissions reduction by a second jurisdiction (British Columbia in this case) with a strict climate policy.

Q19: Was the Climate Solutions and Clean Growth advisory panel consulted on the design of the EITE measure? Did they know it would include LNG?

A: The workplan endorsed by the Climate Council identifies a competitiveness program like the Clean Growth Incentive Program for industry as an early priority for government.

The Climate Council will have a chance to review and provide comments on the specifics of the program before government finalizes program details.

Q20: Can government meet its legislated GHG targets while allowing LNG to proceed?

A: To be clear, new emissions sources will add to government's climate challenge.

That said, the 2050 target for BC is approximately 13 million tonnes of GHGs. We are currently at 64 million tonnes of GHG. New emission sources may add to the challenge of meeting our own climate target, which will be a challenge with or without LNG.

The Clean Incentive Program will provide new resources to drive the transition for all industry to reduce emissions.

Q21: How can you expect every other industry in BC to reduce their emissions significantly while giving LNG a free pass?

A: LNG is not getting a free pass. LNG, like all industry, pays the carbon tax. LNG, like all industry, has the opportunity to access the new Clean Growth Incentive program as their emissions hit a global benchmark for cleanest in the world.

Every industry, just like every individual, will need to take measures to shift to a lower carbon future. Our carbon tax, which is going up after a 6 year freeze, will be the highest in North America. It will provide an incentive to all industry to reduce emissions.

Q22: The Pembina Institute and even the Chair of your climate panel have questioned the ability of BC to meet its climate targets if LNG Canada goes forward.

A: We are committed to putting together a climate strategy that will enable the province to meet our targets, and many of those who have commented on the project have a different understanding of its expected emissions.

Analysis by the Ministry of the Environment found that the project could increase emissions by up to 4 Megatonnes – including associated upstream emissions.

The analysis further showed that this could be reduced by up to half with the adoption of aggressive upstream measures like electrification.

Meeting our climate targets will not be easy – with or without further natural gas development – but we are committed to developing a climate strategy to meet those goals.

We believe we can accommodate emissions associated with the project while meeting our targets.

Q:23 How can this framework apply to all LNG projects without blowing your climate targets? How would you control further development?

A: The Minister for the Environment and Climate Change has been clear that there may not be room for additional LNG projects unless they have very low emissions.

We are committed to putting together a climate strategy that will enable the province to meet our targets.

And we have been clear with any LNG companies that one of our conditions for the sector is that it must fit within these targets.

We've looked at the numbers for LNG Canada and while it makes things more difficult, we believe that we can fit it into this strategy.

Q24: What improvements have you made over the BC Liberals?

A: Unlike the old government we are not signing a blank cheque for companies with the promise to reimburse them for any changes to taxes or climate measures that raise their costs.

In fact we will introduce legislation to repeal the Project Development Agreement Act which would ties the hands of future governments to respect the democratically expressed wishes of British Columbians.

While Pacific Northwest LNG was proposing to use up to 70% temporary foreign workers, LNG Canada is looking at just 0-5%.

From a climate perspective, this proposal would have less than half or even a third the emissions of Pacific Northwest LNG.

But most importantly, our government is committed to actually meeting our climate targets.

There is lots of work to do make up for the backsliding and lost time but we are up to the task and we believe British Columbians are too.

This includes ensuring that any LNG development fits within our responsibilities for climate action.

Q25: Christy Clark recently said that the NDP would have to pay an additional risk premium to land LNG – is that what we are seeing today?

"It's great news to hear that the NDP has reversed course on LNG," Clark wrote on January 19. "Yes, in order to rebuild trust in their government, they will likely have to pay an added "insurance policy" in the form of reduced taxes for LNG companies. Nonetheless, they seem to have recognized the long term benefits of a new industry for workers and taxpayers in this province. LNG will be a lasting legacy to be proud of." (facebook post, January 19)

A: The previous government made a number of promises regarding the development of LNG including:

- Creating a trillion in economic activity over 30 years;
- Creating a $100 billion Prosperity Fund;
- Using LNG revenues to retire the provincial debt;
- Using LNG revenues to eliminate the PST;
- Having an LNG facility up and running by 2015;
- Having three LNG facilities up and running by 2020.

None of these things happened.

We are creating a fiscal framework that is available to any LNG proponent that will ensure a good return to British Columbians and fair return to investors.

And unlike the previous government, we are not abandoning our climate targets.

In fact we will introduce legislation to repeal the Project Development Agreement legislation which would tie the hands of future governments to respect the democratically expressed wishes of British Columbians.

We took a hard look at the competitiveness challenges facing BC LNG and took steps to unlock investment.

This project, if it is built, will create hundreds of long-term jobs and billions in long-term revenues to support the services British Columbians rely on.

Q26: Why are you freezing carbon taxes for LNG?

A: In Budget 2018 we announced that we would implement measures to protect energy intensive trade-exposed sectors who are competing in export markets with companies not subject to any carbon tax.

This is what we have laid out and it requires companies to be global leaders in low emissions and to seek ongoing additional reductions.

These measures will apply evenly across all such sectors whether or not LNG Canada proceeds.

Climate action and economic development must go hand in hand.

Q27: How will the reduction in the electricity rate impact BC Hydro revenues?

A: We are simply ensuring that the same industrial hydro rates that apply to other companies in BC are applicable to natural gas development.

BC Hydro had not factored revenues from LNG projects into their outlook.

Our decision to continue with Site C was based on protecting British Columbians from having to pay $4 billion with nothing to show for it – it was not based on any assumptions about LNG.

Q28 Has LNG Canada met the four conditions? How will you assure they do?

A: I am pleased with the company's progress to meet the four conditions – including securing support from the Haisla First Nation, and investments and redesign to significantly reduce emissions.

Our analysis shows that this project could contribute hundreds of permanent jobs and tens of billions in revenues to support the services people rely on.

I expect the company to continue to advance the project in this spirit.

We have been clear with all companies looking to do business here that they must live up to these principles – and that involves ongoing work on their part.

Q29: What about the Unist'ot'en protest camp blocking the Coastal Gas pipeline?

A: I acknowledge that this is a challenging situation and have made clear to the company that they must work to resolve it with respect.

For our part, our government recognizes the need to reset our relationship with the Wet'suwet'en Nation and hereditary leaders.

In embracing the UN Declaration on the Rights of Indigenous Peoples, BC is committed to work with the Wet'suwet'en Nation and hereditary leaders to find a path forward.

We will assist in re-engagement efforts but ultimately it is the responsibility of the company to find a resolution.

Q30: The Green Party has said it doesn't support this framework and will bring down the government if you try to pass it into law. What is the path forward?

A; We have been clear that any LNG development in BC must fit within BC's climate goals. That is not negotiable.

Minister Heyman is taking the lead on developing a climate change strategy that factors in possible LNG development.

I want to acknowledge Dr. Weaver's life's work on climate change and invite him to play a key role in developing that strategy.

And I acknowledge that we disagree on important parts of this file. We are doing government differently. We are working together to solve problems and resolve our disagreements.

For example he disagrees with the EITE measures proposed in the budget should be applied to the LNG sector. We will have to work to resolve that.

To his credit, he is determined to work with us and industry to see if these issues can be resolved.

And to his credit, in spite of his disagreement with certain measures, he has agreed to work with us to try to develop that strategy.

As Premier, it’s my responsibility to make decisions in the best interest of British Columbians.

I want to ensure that everyone in this province has the opportunity to share in our economic prosperity – while we protect our environment for future generations.

From:	Meggs, Geoff PREM:EX
To:	Wong, Tamarra PREM:EX
Subject:	FW: Backgrounders
Date:	Wednesday, March 21, 2018 10:23:00 AM
Attachments:	BG_LNG Canada_DRAFT8.docx bg_climate action_draft4.docx

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West Annex, Parliament Buildings,
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From: Kristianson, Eric GCPE:EX
Sent: Tuesday, March 20, 2018 4:23 PM
To: Lloyd, Evan GCPE:EX; Aaron, Sage PREM:EX; Meggs, Geoff PREM:EX; 'Marie Della Mattia'; Gibbs, Robb GCPE:EX
Cc: Zadravec, Don GCPE:EX; Wanamaker, Lori FIN:EX; Nikolejsin, Dave EMPR:EX; Plecas, Bobbi ENV:EX; Haslam, David GCPE:EX; Crebo, David GCPE:EX; Howlett, Tim GCPE:EX; Robinson, Jon PREM:EX
Subject: Backgrounders

Group,

Here are the latest versions of the backgrounders for review and revision. They should be pretty close from a program-content perspective and have been reviewed by Dave Nik, Doug Foster and Bobbi as well as their respective teams.

Eric Kristianson
ADM Strategic Issues
GCPE
778-584-1248

BACKGROUNDER

For Immediate Release
[release number]
[Date]

Ministry of Energy, Mines and Petroleum Resources

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VICTORIA – Natural gas has a key role to play to provide clean, reliable, affordable and less-carbon intensive options to global energy markets. British Columbia has a vast supply of natural gas resources to support economic growth and job creation at home, and help

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To ensure British Columbia does it better than anybody else in the world, the provincial government has four key conditions to ensure British Columbians benefit from any proposed LNG development. They are:

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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B.C.'s greenhouse gas emissions by 40 percent below 2007 levels by 2030, and by 80 percent by 2050.

Competiveness Measures

British Columbia has reviewed the competiveness of the LNG industry in British Columbia. As part of this work, British Columbia and LNG Canada jointly conducted a financial analysis of the LNG Canada project. This analysis corroborated the evidence and information from internationally recognized LNG analysts that B.C. has a competitiveness issue and formed the basis of a mutual understanding upon which the Province is prepared to commit measures that will increase the competiveness of British Columbia's LNG industry.

These measures provide a framework for other industries in British Columbia in similar circumstances – they are not exclusive to the LNG industry or LNG Canada.

As it pertains to LNG Canada, the measures detailed below will only be implemented if the proponents are able to conclusively decide on or before November 30, 2018, to proceed with the construction of the LNG facility and associated investments.

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New Approach to LNG

In addition to improving BC's competitiveness, government will take steps to improve the transparency and consistency with which it assesses industrial development opportunities. To that end, government intends to:

- Repeal the Project Development Agreement Act passed by the last government to tie future government's hands on the rules governing LNG projects, effectively indemnifying them against changes.

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Contact:
Suntanu Dalal
Media Relations
Ministry of Energy, Mines and Petroleum Resources
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BRITISH COLUMBIA

BACKGROUNDER

Climate action in British Columbia

Development of a new approach to action is underway, with a broad climate strategy expected this fall. On April 1, 2018 the carbon tax will increase by $5 a tonne annually until 2022. Increasing the carbon tax meets the requirements set out by the federal government's pan-Canadian climate framework. Rebates will go to a majority of British Columbians, s.13
s.13

Increasing the carbon tax alone will not enable B.C. to meet its long term GHG reduction goals. Significant new climate actions initiatives will be required in order for B.C. to meet its 2050 legislated target, while encouraging strong economic growth. To ensure an interim target, new legislated targets for 2030 will be introduced later this year s.13
s.13

A portion of the carbon tax revenue will fund a rebate program to incent the use of the greenest technology available in the industrial sector, including the natural gas sector, to reduce emissions and encourage jobs and economic growth. Some of the revenue will also go into a technology fund, to help spur new, clean technologies in all sectors to make sure they fit within B.C.'s climate plan.

The Climate Solutions Clean Growth Advisory Council (CSCG), announced in October 2017, is supporting government's goal of reducing carbon pollution, so B.C. can meet its climate goals and grow a sustainable economy. The CSCG is comprised of community leaders from across British Columbia, including representatives from First Nations, local government, industry, environmental organizations, academia and labour.

The CSCG is providing advice on actions and policies to achieve significant greenhouse gas reductions, while taking advantage of opportunities for sustainable economic development and job creation.

Immediate priorities for the CSCG include achieving emissions reductions in the transportation sector, developing pathways to clean economic growth as well as policies to support the competitiveness of B.C.'s emissions-intensive and trade-exposed industries.

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More information on the Climate Solutions and Clean Growth Advisory Council can be found at: https://www2.gov.bc.ca/gov/content/environment/climate-change/planning-and-action/advisory-council

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Media Relations
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250 953-3834

From:	Nash, Amber PREM:EX
To:	Wong, Tamarra PREM:EX; Higgins, Keira PREM:EX
Cc:	Bain, Don PREM:EX
Subject:	FW: BN for dinner meeting
Date:	Thursday, March 1, 2018 10:38:51 AM
Attachments:	LNG Canada - update Feb 28.docx

From: McCann, Meghan EMPR:EX
Sent: Thursday, March 1, 2018 9:57 AM
To: Nash, Amber PREM:EX
Subject: RE: BN for tomorrow

As requested Amber, thanks.

Meghan McCann
Senior Executive Assistant to Deputy Minister Dave Nikolejsin
Deputy Minister's Office **|** *Ministry of Energy, Mines, and Petroleum Resources*
Direct: 250 952-0504

Date: February 28, 2018

MINISTRY OF ENERGY, MINES AND PETROLEUM RESOURCES

BRIEFING NOTE FOR INFORMATION

I PREPARED FOR: Honourable John Horgan, Premier

II ISSUE: Update on LNG Canada Competitiveness Review

III BACKGROUND:

LNG Canada is a proposed four-train, 26 million tonnes per annum liquefaction project to be located near Kitimat. The current focus of the project is on the first phase, which consists of two trains totaling 13 million tonnes per annum of capacity.

The project has received environmental approval from both the provincial and federal government and is fully permitted – including the first LNG Facility Permit issued by the BC Oil and Gas Commission.

On July 11, 2016, LNG Canada announced that its joint venture partners had decided to delay a Final Investment Decision (FID) on the project to focus on reducing capital costs, as international markets shifted considerably since the project's inception. In 2017, the LNG Canada CEO Andy Calitz announced that the project is now "extremely active" and the consortium intends on taking a FID in the second half of 2018.

On February 2nd 2018, LNG Canada announced it has short-listed two major international engineering and construction consortiums for the design, procurement and construction for an LNG plant in Kitimat: TechnipFMC plc-KBR, Inc. and JGC Corp.-Fluor Corp.

Competitiveness challenges remain for the project when compared to competing proposals in the US Gulf Coast. The Province, Canada and LNG Canada have been actively working on ways to address this competitiveness gap, which is estimated to be between s.13

s.13 the governments of BC and Canada have committed to try to find s.13 The BC share of these efforts is US$0.13.

IV DISCUSSION:

On February 28th, Provincial representatives from the Ministries of Energy, Mines and Petroleum Resources and Finance met with LNG Canada to discuss the potential provincial fiscal 'levers' that could help reduce the competitiveness gap and allow for a positive FID in the second half of 2018.

The meeting had two objectives:

(1) A validation exercise that allowed Ministry of Finance staff to confirm some of the detailed assumptions in the joint model conducted by the Province, the Federal government and LNG Canada; and

(2) A modelling exercise to confirm the impacts of four Provincial fiscal 'levers' designed to reduce the Provincial share of the competitiveness gap, estimated at US$0.13/MMBtu.

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As staff made progress in the design and implementation of these 'levers' a few options/refinements were identified, and tabled with LNG Canada at the February 28th meeting.

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Based on the Provincial modelling, the combination of these four levers would reduce the cost stack for the LNG Canada project by US$0.13/MMBtu, the target amount required from a Provincial perspective.

LNG Canada is still waiting for clear signals from the Federal government regarding the exemption of Fabricated Industrial Steel Components (FISC) for large modules, and a firm commitment on federal funding to support key infrastructure in the Kitimat area.

From:	Meggs, Geoff PREM:EX
To:	Wong, Tamarra PREM:EX
Subject:	FW: Confirmation
Date:	Thursday, March 15, 2018 9:46:45 AM
Attachments:	LNG Canada Comfort Letter Final with markup.docx LNG Canada Comfort Letter Final.pdf

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From: Nikolejsin, Dave MNGD:EX
Sent: Wednesday, March 14, 2018 10:18 PM
To: Meggs, Geoff PREM:EX; Wright, Don J. PREM:EX; Bain, Don PREM:EX; Lloyd, Evan GCPE:EX; Aaron, Sage PREM:EX; Howlett, Tim GCPE:EX
Subject: Confirmation

Geoff, I can confirm that LNG Canada is ok with the attached version. I have attached a marked up version as discussed and the clean pdf version I shared with them. I will send this version to your office for final proofread and formatting for PJH letterhead.

I will also share this version back with Don's DM working group so they have the final as well.

Dave Nikolejsin
Deputy Minister
Energy, Mines and Petroleum Resources

Page 11 of 59 to/à Page 26 of 59

Withheld pursuant to/removed as

s.13

From: Meggs, Geoff PREM:EX
To: Wong, Tamarra PREM:EX
Subject: FW: drafts
Date: Wednesday, March 21, 2018 10:53:14 AM
Attachments: BG_LNG Canada_DRAFT10.docx
bg_climate action_draft4.docx
LNG Framework QA v. 5.docx
Importance: High

Pls print this one

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(250) 356-6271

From: Kristianson, Eric GCPE:EX
Sent: Wednesday, March 21, 2018 10:39 AM
To: Meggs, Geoff PREM:EX; Lloyd, Evan GCPE:EX
Subject: drafts
Importance: High

Geoff,

Here are the latest parts. The QA is pretty solid. The backgrounders are good from a program perspective but are being revised by Marie as we speak. Robb has a new release draft that Ive not read yet, but it will follow soon

Eric Kristianson
ADM Strategic Issues
GCPE
778-584-1248

LNG Framework Q&A

Q0: **How does LNG Canada's project compare to PNW LNG?**

A: Government established 4 conditions under which it would support LNG projects in BC.

With respect to First Nations, the PNW LNG project faced considerable opposition from affected First Nations whom the previous government dismissed as a "ragtag group" In contrast, LNG Canada has made significant efforts to garner the support of First nations and will continue to do so.

With respect to environmental impacts, PNW LNG would have produced substantially more emissions annually than LNG Canada. Additionally, the PNW LNG project would have produced greater emissions intensity (0.23) than LNG Canada (0.15).

With respect to employment, the projects are similar size and would have required similar job numbers. However, PNW LNG proposed to employ Temporary Foreign Workers for up to 70% of its workforce, while 95% of LNG Canada workforce will be comprised of Canadians.

Comparing the revenues that government would have received from PNW LNG is difficult because the project was cancelled. However, if the LNG Canada project proceeds, BC will receive tens of billions in revenues over the life of the project.

Q1: Why did you call the reduction of LNG Income Tax from 7% to 3.5% a sellout, when you are proposing to eliminate it entirely?

A: The existing LNG Income Tax is not an effective means for generating returns to British Columbia. It has also been identified by other governments and industry in Asia as a serious detriment to investment in British Columbia.

Government intends to introduce legislation to repeal this tax. Instead, government will utilize a number of existing tax and royalty measures to ensure that British Columbians receive a fair return. Under our framework LNG Canada will contribute tens of billions in taxes and royalties to the BC economy over the life of the project.

A2 The existing LNG Income Tax as designed by the previous government won't work. It won't generate a fair return for British Columbians and it's poor design and unknowns are scaring off investment in LNG.

Q2: You criticized the Petronas deal as a sellout for not generating a fair return for taxpayers for their resource Why then, did you cut a deal with LNG Canada?

A: The Petronas deal was under a Project Development Agreement (PDA) which basically tied the hands of future governments on a number of taxation and policy measures. What's more, it did nothing to improve the competitiveness of the project. As a result, the PNW LNG project was cancelled, leaving the province with no revenue.

What we are creating is a framework for any LNG projects that will improve competitiveness and allow us to get closer to a positive final investment decision later this year.

A2 The LNG Canada project is a bigger project, with better returns to government, with fewer emissions, a better location and more support from First Nations.

Q3: **Why are you planning to exempt LNG Canada from the PST?**

A: Proponents building other types of manufacturing are exempt from the PST on input costs. Under our new framework, we will develop an agreement through which a proponent (in this case LNG Canada) would pay the equivalent of the PST in the form of Operating Performance Payments over a 20-year period. This agreement benefits both LNG Canada and the province.

Q4: Why did you eliminate a tax (LNG IT) and leave the company with a tax credit on the income tax(Natural Gas Tax Credit)?

A: The existing LNG Income Tax is not an effective means for generating returns to British Columbia. In fact the tax was structured in such a way that the proponent would not have paid any LNG Income Tax until after it had recovered its capital costs. Moreover, the LNG Income Tax was a detriment for investors due to its complexity and the fact no competing jurisdiction has anything like it.

The government will propose the tax to be repealed and government will rely on a number of existing tax and royalty measures to ensure that British Columbians receive a fair return. The Natural Gas Tax Credit has been retained as part of a suite of measures aimed at improving BC's competitiveness and as a tool to use BC natural gas in the liquefaction.

Q5: You criticized earlier projects for employing TFWs. How many TFWs will LNG Canada employ?

A: We expect that if the project proceeds, up to 5% of the workforce will be made up of temporary foreign workers and 95% will be Canadians. We expect LNG Canada to seek to bring this small percentage of TFWs to fill jobs for which unique skills are required. In contrast the PNW LNG project proposed to source as much as 70% of its workforce from outside Canada.

Q6: Kitimat LNG, PNW LNG (Petronas), Woodfibre are currently permitted projects...how can you prevent them from proceeding?

A: Government has set out a framework that is available to any proponent interested in a resource development or industrial project. In the case of LNG, the previous government developed unrealistic expectations about the scope of opportunity in BC and in the global market. That said, all new industrial projects, including the proposed LNG Canada project will be evaluated to determine if they can fit within BC's legislated emissions targets.

A2 The climate plan is under development. It is our intention to have a credible plan that has room in it for the continued growth of our economy and jobs. This project, if built, will be the lowest emissions from any large LNG project in the world.

Q6B **So will LNG Canada effectively be the last LNG project permitted under government climate strategy?**

A: Any new project, LNG or otherwise, will have to fit within BC's climate changes strategy.

Q7: Who are the proponents?

A: Shell Canada (50%), Korea Gas Corporation (KOGAS) (15%), Mitsubishi Corporation (15%), and PetroChina Company Limited (20%).

Q8: Is there a pipeline connecting to the facility?

A: Yes - the Coastal GasLink Pipeline project. Coastal GasLink Pipeline Ltd. is a wholly-owned subsidiary of TransCanada PipeLines Limited. The pipeline was issued an Environmental Assessment Certificate from the BC Government in October 2014, with 32 conditions.

Q9: Does LNG Canada have export approval from Canada?

A: Yes. The National Energy Board granted LNG Canada with exporting rights to ship for 40 years, with an annual volume of 26 million tonnes of LNG.

Q10: What's the estimated investment of LNG Canada?

A: LNG Canada has indicated that its proposal will include an investment of $25 - $40 billion.

Q11: What are your government's conditions for the LNG industry?

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

Q12: Does LNG Canada have free prior and informed consent from affected First Nations in order to move this project forward?

A: Support for the facility has been strong in Kitimat and with First Nations communities. The Haisla Nation (where the facility will be located) fully endorse LNG Canada. That said, government has informed the proponents that they need to continue working to address the concerns of First Nations.

Q13: What are the economic benefits for First Nations if this project moves forward and which First Nations bands will benefit?

A: Many First Nations along the pipeline route also support the project, and agreements remain in place with specific benefits for those along the proposed route.

Q14: You said LNG must meet four conditions. How does this project meet the condition on the environment while Pacific Northwest LNG did not?

A: The Carbon Tax will increase to $50/tonne – before any plant comes online. The LNG industry will pay the carbon tax just as any other sector, based on the provisions of the recently announced Clean Growth Incentive initiative.

LNG Canada has committed to 0.15 tonne of greenhouse case per tonne of LNG, which will be below the benchmark established as cleanest facility in the world (0.16). In contrast, Pacific Northwest LNG forecast their emissions to be considerably higher at 0.23 per tonne

In addition, the federal government is establishing new requirements for methane, meaning upstream methane emissions will be reduced by 45%. Provincial regulations to reduce fugitive methane emissions are in development.

LNG Canada is intending to procure most of its natural gas from the south part of the Montney Basin where there are options to electrify operations. In contrast, the Pacific Northwest LNG feedstock was to be sourced mostly from the north part of the Montney Basin where electrification was not an easy option.

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Q16: In a letter to the CEAA, the NDP opposed Pacific Northwest LNG saying the project has "unacceptable high and inadequately regulated greenhouse gas emissions." How is this project any different? How will GHGs be better regulated now?

A: The Carbon Tax will increase to $50/tonne – before any plant comes online. The LNG industry will pay the carbon tax just as any other sector, based on the provisions of the recently announced Clean Growth Incentive initiative..

LNG Canada has committed to 0.15 tonne of greenhouse case per tonne of LNG, which will be below the benchmark established as cleanest facility in the world (0.16). In contrast, Pacific Northwest LNG forecast their emissions to be considerably higher at 0.23 per tonne

In addition, the federal government is establishing new requirements for methane, meaning upstream methane emissions will be reduced by 45%. Provincial regulations to reduce fugitive methane emissions are in development.

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Q17: **You opposed Bill 2 - the government's "world's cleanest LNG" legislation – saying it does not apply to 70% of GHG emissions in the LNG lifecycle (upstream). You said that the 70% upstream must be included to be credible.**

A: The Carbon Tax increase applies all sectors based on the provisions of the recently announced Clean Growth Incentive initiative. Upstream emissions will be taxed unless they demonstrate they are 'the best in the world'. Most of the feedstock for LNG Canada is expected to come from the south part of the Montney basin where aggressive electrification is already taking place. Further, methane emissions will be regulated directly to ensure a 45% reduction in methane by 2025, consistent with the federal approach to methane reduction.

s.13

The Clean Growth Incentive program is designed for all large industrial emitters who compete with jurisdictions that do not pay carbon taxes.

The Climate Leadership Team in their 2015 report made a recommendation (#5c) to establish a mechanism like the Clean Growth Incentive Program that allows the price signal of the carbon tax to be maintained while putting in place competitiveness measures for industries that compete globally against industry in jurisdictions with little or no carbon tax. All industrial emitters will be eligible to participate in the Clean Growth Incentive Program.

All emitters will pay the carbon tax. If emissions hit a global benchmark as the world's cleanest, like the LNG Canada facility is expected to do, emitters will be entitled to a rebate on the carbon tax above $30/tonne. The more the emissions are above the global benchmark, the less of the carbon tax the emitter will receive as a rebate – consistent with the polluter pay principle. In this way, government is encouraging global leading performance in GHG reductions for all industry including LNG.

This approach is designed to avoid what's referred to as 'carbon leakage', meaning an increase in carbon dioxide emissions in one jurisdiction as a result of an emissions reduction by a second jurisdiction (British Columbia in this case) with a strict climate policy.

Q19: Was the Climate Solutions and Clean Growth advisory panel consulted on the design of the EITE measure? Did they know it would include LNG?

A: The workplan endorsed by the Climate Council identifies a competitiveness program like the Clean Growth Incentive Program for industry as an early priority for government.

The Climate Council will have a chance to review and provide comments on the specifics of the program before government finalizes program details.

Q20: Can government meet its legislated GHG targets while allowing LNG to proceed?

A: The 2050 target for BC is approximately 13 million tonnes of GHGs. We are currently at 64 million tonnes of GHG. New emission sources may add to the challenge of meeting our own climate target, which will be a challenge with or without LNG.

The Clean Incentive Program will provide new resources to drive the transition for all industry to reduce emissions.

Q21: How can you expect every other industry in BC to reduce their emissions significantly while giving LNG a free pass?

A: LNG is not getting a free pass. LNG, like all industry, pays the carbon tax. LNG, like all industry, has the opportunity to access the new Clean Growth Incentive program as their emissions hit a global benchmark for cleanest in the world.

Every industry, just like every individual, will need to take measures to shift to a lower carbon future. Our carbon tax, which is going up after a 6 year freeze, will be the highest in North America. It will provide an incentive to all industry to reduce emissions.

Q22: The Pembina Institute and even the Chair of your climate panel have said it is impossible for BC to meet its climate targets if LNG Canada goes forward.

A: We are committed to putting together a climate strategy that will enable the province to meet our targets.

Analysis by the Ministry of the Environment found that the project could increase emissions by up to 4 Megatonnes – including associated upstream emissions.

The analysis further showed that this could be reduced by up to half with the adoption of aggressive upstream measures like electrification.

Meeting our climate targets will not be easy – with or without further natural gas development – but we are committed to developing a climate strategy to meet those goals.

We believe we can accommodate emissions associated with the project while meeting our targets.

Q:23 **How can this framework apply to all LNG projects without blowing your climate targets? How would you control further development?**

A: The Minister for the Environment and Climate Change has been clear that there may not be room for additional LNG projects.

We are committed to putting together a climate strategy that will enable the province to meet our targets.

And we have been clear with any LNG companies that one of our conditions for the sector is that it must fit within these targets.

We've looked at the numbers for LNG Canada and while it makes things more difficult, we believe that we can fit it into this strategy.

Q24: **What improvements have you made over the BC Liberals?**

A: Unlike the old government we are not signing a blank cheque for companies with the promise to reimburse them for any changes to taxes or climate measures that raise their costs.

In fact we will introduce legislation to repeal the Project Development Agreement Act which would tie the hands of

future governments to respect the democratically expressed wishes of British Columbians.
While Pacific Northwest LNG was proposing to use up to 70% temporary foreign workers, LNG Canada is looking at just 0-5%.

From a climate perspective, this proposal would have less than half or even a third the emissions of Pacific Northwest LNG.

But most importantly, our government is committed to actually meeting our climate targets.

The old government completely gave up on climate action and on our targets – letting emissions rise in four of the past five years.

There is lots of work to do make up for the backsliding and lost time but we are up to the task and we believe British Columbians are too.

This includes ensuring that any LNG development fits within our responsibilities for climate action.

Q25: **Christy Clark recently said that the NDP would have to pay an additional risk premium to land LNG – is that what we are seeing today?**

"It's great news to hear that the NDP has reversed course on LNG," Clark wrote on January 19. "Yes, in order to rebuild trust in their government, they will likely have to pay an added "insurance policy" in the form of reduced taxes for LNG companies. Nonetheless, they seem to have recognized the long term benefits of a new industry for workers and taxpayers in this province. LNG will be a lasting legacy to be proud of." (facebook post, January 19)

A: Far from it. Unlike the old government, we are not signing a blank cheque for companies with a promise to reimburse them for any tax or climate measures that impact their costs.

In fact we will introduce legislation to repeal the Project Development Agreement legislation which would tie the hands of future governments to respect the democratically expressed wishes of British Columbians.

We took a hard look at the competitiveness challenges facing BC LNG and took steps to unlock investment.

This project, if it is built, will create hundreds of long-term jobs and billions in long-term revenues to support the services British Columbians rely on.

Q26: **Why are you freezing carbon taxes for LNG?**

A: In Budget 2018 we announced that we would implement measures to protect energy intensive trade-exposed sectors who are competing in export markets with companies not subject to any carbon tax.

This is what we have laid out and it requires companies to be global leaders in low emissions and to seek ongoing additional reductions.

These measures will apply evenly across all such sectors whether or not LNG Canada proceeds.

Climate action and economic development must go hand in hand.

Q27: **How will the reduction in the electricity rate impact BC Hydro revenues?**

A: We are simply ensuring that the same industrial hydro rates that apply to other companies in BC are applicable to natural gas development.

BC Hydro had not factored revenues from LNG projects into their outlook.

Our decision to continue with Site C was based on protecting British Columbians from having to pay $4 billion with nothing to show for it – it was not based on any assumptions about LNG.

Q28 Has LNG Canada met the four conditions? How will you assure they do?

A: I am pleased with the company's progress to meet the four conditions – including securing support from the Haisla First Nation, and investments and redesign to significantly reduce emissions.

Our analysis shows that this project could contribute hundreds of permanent jobs and tens of billions in revenues to support the services people rely on.

I expect the company to continue to advance the project in this spirit.

We have been clear with all companies looking to do business here that they must live up to these principles – and that involves ongoing work on their part.

Q29: What about the Unist'ot'en protest camp blocking the Coastal Gas pipeline?

A: I acknowledge that this is a challenging situation and have made clear to the company that they must work to resolve it with respect.

For our part, our government recognizes the need to reset our relationship with the Wet'suwet'en Nation and hereditary leaders.

In embracing the UN Declaration on the Rights of Indigenous Peoples, BC is committed to work with the Wet'suwet'en Nation and hereditary leaders to find a path forward.

We will assist in re-engagement efforts but ultimately it is the responsibility of the company to find a resolution.

Q30: The Green Party has said it doesn't support this framework and will bring down the government if you try to pass it into law. What is the path forward?

A; We have been absolutely clear that any LNG development must be consistent with BC's climate goals. That is not negotiable.

Minister Heyman is taking the lead on developing a climate change strategy that factors in possible LNG development.

We are inviting Dr. Weaver to play a key role in developing that strategy.

And to his credit, in spite of his disagreement with certain measures, he has agreed to work with us to try to develop that strategy.

As Premier, it's my responsibility to make decisions in the best interest of British Columbians.

I want to ensure that everyone in this province has the opportunity to share in our economic prosperity – while we protect our environment for future generations.

From:	Meggs, Geoff PREM:EX
To:	Wong, Tamarra PREM:EX
Subject:	FW: In case you want to start early
Date:	Wednesday, March 21, 2018 10:22:40 AM
Attachments:	LNG Framework QA v. 3.docx

GEOFF MEGGS
Chief of Staff, Office of the Premier
West Annex, Parliament Buildings,
501 Belleville St, Victoria, BC V8V 2L8
(250) 356-6271

From: Lloyd, Evan GCPE:EX
Sent: Tuesday, March 20, 2018 4:40 PM
To: Meggs, Geoff PREM:EX
Subject: FW: In case you want to start early

This is an early draft. There are likely more Qs arriving from Jon. As well this draft has been sent back to the ministries for proofing.

Evan

From: Eric Kristianson <Eric.Kristianson@gov.bc.ca>
Date: Tuesday, March 20, 2018 at 4:38 PM
To: "Lloyd, Gcpe:Ex" <Evan.Lloyd@gov.bc.ca>
Subject: In case you want to start early

From: Kristianson, Eric GCPE:EX
Sent: Tuesday, March 20, 2018 4:13 PM
To: Haslam, David GCPE:EX; Crebo, David GCPE:EX
Cc: Howlett, Tim GCPE:EX; Robinson, Jon PREM:EX; Zadravec, Don GCPE:EX
Subject: QA for review

Gentlemen, here is the latest version of the QA. Can you review the appropriate components with your respective teams. There will be another section coming later today or tomorrow morning.

Thanks

Eric Kristianson
ADM Strategic Issues
GCPE
778-584-1248

LNG Framework Q&A

Q1: **Why did you call the reduction of LNG Income Tax from 7% to 3.5% a sellout, when you have eliminated it entirely?**

A: The existing LNG Income Tax is not an effective means for generating returns to British Columbia. It has also been identified by other governments and industry in Asia as a serious detriment to investment in British Columbia. This tax will be repealed and government will rely on a number of existing tax and royalty measures to ensure that British Columbians receive a fair return. Under the framework LNG Canada would contribute tens of billions in taxes and royalties to the BC economy over the life of the project.

Q2: You criticized the Petronas deal as a sellout when it would have produced $0.XX (US) /MMBtu for not generating a fair return for taxpayers for their resource Why did you then cut a deal with LNG Canada that will only produce $0.40 (US)/MMBtu?

A: Waiting for answer from Dave Nik

Q3: **Why did you exempt LNG Canada from the PST?**

A: Proponents building other types of manufacturing are exempt from the PST on input costs. Under our new framework, we have developed an agreement through which a proponent, in this case LNG Canada) would pay the equivalent of the PST in the form of Operating Performance Payments over a 20-year period. This agreement benefits both LNG Canada and the province.

Q4: **Why did you eliminate a tax (LNG IT) and leave the company with a tax credit (Natural Gas Tax Credit)?**

A: The existing LNG Income Tax is not an effective means for generating returns to British Columbia. In fact the tax was structured in such a way that the proponent would not have paid any LNG Income Tax until after it had recovered its capital costs.

This tax will be repealed and government will rely on a number of existing tax and royalty measures to ensure that British Columbians receive a fair return. The Natural Gas Tax Credit has been retained as part of a suite of measures aimed at improving BC's competitiveness.

Q5: You criticized earlier projects for employing TFWs. How many TFWs will LNG Canada employ?

A: We expect that if the project proceeds, up to 5% of the workforce will be made up of temporary foreign workers and 95% will be Canadians. We expect LNG Canada to seek to bring this small percentage of TFWs to fill jobs for which unique skills are required. In contrast the PNW LNG project proposed to source as much as 70% of its workforce from outside Canada.

Q6: Kitimat LNG, PNW LNG (Petronas), Woodfibre and Steelhead are currently permitted projects...how can you prevent them from proceeding?

A: Government has set out a framework that is available to any proponent interested in a resource development or industrial project. In the case of LNG, the previous government developed unrealistic expectations about the scope of opportunity in BC and in the global market. That said, all new industrial projects, including the proposed LNG Canada project will be evaluated to determine if they can fit within BC's legislated emissions targets.

Q7: Who are the proponents?

A: Shell Canada (50%), Korea Gas Corporation (KOGAS) (15%), Mitsubishi Corporation (15%), and PetroChina Company Limited (20%).

Q8: Is there a pipeline connecting to the facility?

A: Yes - the Coastal GasLink Pipeline project. Coastal GasLink Pipeline Ltd. is a wholly-owned subsidiary of TransCanada PipeLines Limited. The pipeline was issued an Environmental Assessment Certificate from the BC Government in October 2014, with 32 conditions.

Q9: Does LNG Canada have export approval from Canada?

A: Yes. The National Energy Board granted LNG Canada with exporting rights to ship for 40 years, with an annual volume of 26 million tonnes of LNG.

Q10: What's the estimated investment of LNG Canada?

A: LNG Canada has indicated that it's proposal will include an investment of $25 - $40 billion.

Q11: What are your government's conditions for the LNG industry?

A: There are four conditions:

1. LNG projects must offer jobs and training for British Columbians, especially jobs for local people.
2. The people of BC must get a fair return for our resources.
3. LNG projects must secure full partnerships with local First Nations.
4. LNG projects must complete a made-in-BC environmental assessment and respect our commitments to combating climate change.

Q12: Does LNG Canada have free prior and informed consent from affected First Nations in order to move this project forward?

A: Support for the facility has been strong in Kitimat and with First Nations communities. The Haisla Nation (where the facility will be located) fully endorse LNG Canada. That said, government has informed the proponents that they need to continue working to address the concerns of First Nations.

Q13: What are the economic benefits for First Nations if this project moves forward and which First Nations bands will benefit?

A: Many First Nations along the pipeline route also support the project, and agreements remain in place with specific benefits for those along the proposed route.

Q14: You said LNG must meet four conditions. How does this project meet the condition on the environment while Pacific Northwest LNG did not?

A: The Carbon Tax will increase to $50/tonne – before any plant comes online. The LNG industry will pay the carbon tax just as any other part of the Energy Intensive Trade Exposed industrial sector will.

LNG Canada has committed to 0.15 tonne of greenhouse case per tonne of LNG, which will be below the benchmark established as cleanest facility in the world (0.16). In contrast, Pacific Northwest LNG forecast their emissions to be considerably higher at 0.23 per tonne

In addition, the federal government is establishing new requirements for methane, meaning new upstream methane emissions will be reduced by 45%. A provincial requirement further regulating fugitive emissions is in development.

LNG Canada is intending to access natural gas from the lower Montney basin where there are options to electrify operations. In contract, the Pacific Northwest LNG gas was to be sourced from the north Montney where electrification was not an option.

Q15: **Why are you freezing carbon taxes for LNG?**

A: We are not. As previously announced, we are taking steps to protect industries that compete with jurisdictions that do not facer carbon taxes. Everybody pays the full carbon tax – which will be $50/tonne by 2021.

For those industries in the Energy Intensive Trade Exposed sector, including LNG, that meet a world leading benchmark, meaning they are the cleanest in the world, a rebate of the carbon tax above $30 will be provided.

Q16: **In a letter to the CEAA, the NDP opposed Pacific Northwest LNG saying the project has "unacceptable high and inadequately regulated greenhouse gas emissions." How is this project any different? How will GHGs be better regulated now?**

A: The Carbon Tax will increase to $50/tonne – before any plant comes online. The LNG industry will pay the carbon tax just as any other part of the Energy Intensive Trade Exposed industrial sector will.

LNG Canada has committed to 0.15 tonne of greenhouse case per tonne of LNG, which will be below the benchmark established as cleanest facility in the world (0.16). In contrast, Pacific Northwest LNG forecast their emissions to be considerably higher at 0.23 per tonne

In addition, the federal government is establishing new requirements for methane, meaning new upstream methane emissions will be reduced by 45%. A provincial requirement further regulating fugitive emissions is in development.

Q17: **You opposed Bill 2 - the government's "world's cleanest LNG" legislation – saying it does not apply to 70% of GHG emissions in the LNG lifecycle (upstream). You said that the 70% upstream must be included to be credible.**

A: The Carbon Tax increase applies to the full life cycle of LNG – the upstream as well as the facility. Upstream emissions will be regulated directly to ensure a 45% reduction in methane by 2025.

Q18: **The Energy Intensive Trade Exposed provision (Clean Growth Incentive Program) of the Carbon Tax was designed to support legacy industries. Why are you using it to support a new, significantly polluting industry? How can you justify LNG being included in EITE?**

The Clean Growth Incentive program is designed for all large industrial emitters who compete with jurisdictions that do not pay carbon taxes .

The Climate Leadership Team in their 2015 report made a recommendation (#5c) to establish a mechanism like the Clean Growth Incentive Program that allows the price signal of the carbon tax to be maintained while putting in place competitiveness measures for industries that compete globally against industry in jurisdictions with little or no carbon tax. All industrial emitters will be eligible to participate in the Clean Growth Incentive Program.

All emitters will pay the carbon tax. If emissions hit a global benchmark as the world's cleanest, like the LNG facility is expected to do, emitters will be entitled to a rebate on the carbon tax above $30/tonne. If more the emissions are above the global benchmark, the less of the carbon tax the emitter will receive as a rebate – consistent with the polluter pay principle. In this way, government is encouraging global leading performance in GHG reductions for all industry including LNG.

Q19: **Was the Climate Solutions and Clean Growth advisory panel consulted on the design of the EITE measure? Did they know it would include LNG?**

A: The workplan endorsed by the Climate Council identifies a competitiveness program like the Clean Growth Incentive Program for industry as an early priority for government.

The Climate Council will have a chance to review and provide comments on the specifics of the program before government finalizes program details.

Q20: **Can government meet its legislated GHG targets while allowing LNG to proceed?**

A: The 2050 target for BC is approximately 13 million tonnes of GHGs. We are currently at 64 million tonnes of GHG. New emission sources may add to the challenge of meeting our own climate target, which will be a challenge with or without LNG.

The Clean Incentive Program will provide new resources to drive the transition for all industry to reduce emissions. No question, it will be challenge for BC to shift to a low carbon economy. That said, BC is ideally placed to lead the world in delivering LNG to global markets thereby offsetting the use of higher emitting fuels like coal *and* to deliver LNG in a way that doesn't compromise BCs own climate goals.

Q21: **How can you expect every other industry in BC to reduce their emissions significantly while giving LNG a free pass?**

LNG is not getting a free pass. LNG, like all industry, pays the carbon tax. LNG, like all industry, has the opportunity to access the new Clean Growth Incentive program as their emissions hit a global benchmark for cleanest in the world.

LNG will play a role as a transition fuel to a lower carbon economy in BC, particularly as LNG offsets other forms of fuel like diesel in commercial transportation.

Every industry, just like every individual, will need to take measures to shift to a lower carbon future. Our carbon tax, which is going up after a 6 year freeze, will be the highest in North America. It will provide an incentive to all industry to reduce emissions.

From:	Farmer, Susan PREM:EX
To:	Meggs, Geoff PREM:EX; Wright, Don J. PREM:EX
Cc:	Rochon, Jake PREM:EX; Wong, Tamarra PREM:EX; Higgins, Keira PREM:EX
Subject:	REVISED Draft for consideration
Date:	Friday, March 16, 2018 2:54:26 PM
Attachments:	2018-03-16 LNG Canada.docx

Hi Geoff & Don – please see the attached letter that includes minor revisions from what was referred to you yesterday.

Please note that the cc's suggested by EMPR have now been added (MMM, MCJ & MGH).

As well, there is an additional sentence provided by DM Nikolejsin that's been added on page 2 of the letter. The additional text is in brackets at the end of the paragraph that follows the italicized quote.

Susan Farmer
Managing Director | Correspondence Branch | Office of the Premier
P: 250-387-3570 E: susan.farmer@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.

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.

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.

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 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.