



May 13, 2014

Pierre River Mine Project Joint Review Panel  
Canadian Environmental Assessment Agency  
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Attention: Mr Alex Bolton – Joint Review Panel Chairman

**RE: Quarterly Update for the Pierre River Mine Project  
Canadian Environmental Assessment Registry Reference Number No: 59539**

Dear Mr. Bolton:

The following letter is in response to the Joint Review Panel's ("JRP") February 13, 2014 letter to Shell Canada Energy ("Shell") requesting Shell to provide quarterly updates on the Pierre River Mine project ("PRM" or the "Project"). This letter will address:

- The current status of Shell's PRM Project application;
- Issues raised in the cover letter and second round of supplemental information requests ("R2 SIRs") received from the JRP on March 18, 2014; and
- Shell's work plan to advance the PRM Project.

At the outset, Shell would like to emphasize that the decision to request a suspension of the PRM application review was not made lightly. Shell is committed to developing its oil sands leases in an environmentally responsible and cost-effective manner. This commitment is reflected in the significant time and resources invested in this application which, to date, is in its seventh year of regulatory review. Since the PRM application was first filed in 2007, the regulatory and business landscapes in which Shell operates have changed considerably, and Shell has attempted to respond to such changes by providing additional project information or making project amendments, where appropriate. In February 2014, Shell determined that based on the current business landscape, it would need to update its development timing for PRM, and revise the related application information in support of this change. Hence, Shell requested a suspension of the application review process to address this issue. Despite this, Shell remains committed to advancing its PRM application in a timely and efficient manner.

After Shell's request to suspend the PRM application review in February 2014, the JRP issued the R2 SIRs. The scope of these SIRs was unexpected given the current stage of the application review, and several of the SIRs raise fundamental concerns with Shell's assessment methodology.

Many of the key issues raised in the R2 SIRs relate to the Joint Review Panel's Decision Report ("Decision Report") for the Jackpine Mine Expansion ("JPME"). In its cover letter to the R2 SIRs, the JRP wrote:

*The Panel is disappointed in that it believes that Shell had adequate time to respond to the Panel's requests and had the additional benefit of reviewing the Joint Review Panel's Report for the Jackpine Mine Expansion Project. Shell's responses should have taken into account the concerns expressed by the Panel in that the Report that are also relevant for the review of the Pierre River Mine Project.*

Shell initially planned to file its response to the first round of the JRP's PRM SIRs ("R1 SIRs") in August 2013. Based on its understanding that the JPME Decision Report would be issued in May 2013, Shell believed it would have ample time to review and incorporate any important findings from the Decision Report into its responses to the R1 SIRs. Unfortunately, the Decision Report was not released until July 2013, by which time Shell's work associated with responding to the R1 SIRs was already largely completed. Further, a number of the concerns expressed in the Decision Report were not believed by Shell to be at issue in the JPME hearing or were not addressed in any great detail, making it difficult to anticipate the types of concerns that were ultimately expressed by the JRP in the Decision Report. In the absence of specific direction from the JRP, Shell followed the established guidance from regulators and the precedents established over the previous 15 years of oil sands environmental impact assessment ("EIA") to complete the majority of its work on the responses to the R1 SIRs.

Once Shell received the JPME Decision Report, it made a deliberate decision to postpone filing its responses to the R1 SIRs to October 2013, so that it could incorporate some of the key concerns raised in the JPME Decision Report. In particular, Shell included an alternative assessment of environmental effects based on the resource management criteria approach utilized by the JRP in the Decision Report. Shell also included additional information with respect to climate change, Tier IV truck availability, additional key indicator resources, Aboriginal information, and conservation offsets. Despite this, and the fact that Shell's application includes over 20,000 pages of information, the JRP for the PRM project determined that the information provided was not adequate to proceed to a public hearing, and has expressed concerns about fundamental methodological issues.

One key issue raised by the JRP in the R2 SIRs is the size of the Regional Study Area ("RSA") for the PRM project. No specific guidance has been provided by provincial or federal regulators on how to appropriately size a terrestrial RSA. The RSA's developed for the different environmental components in the PRM EIA were sized to evaluate the regional and cumulative impacts of the Project in terms of larger geographic and ecological contexts. This includes consideration of the Project Terms of Reference requirements, ecological context and boundaries, and the footprint and "zone of influence" of existing, approved and planned developments whose impacts could cumulatively interact with the Project's impacts. The methodology used to develop the terrestrial RSA for the PRM EIA has been used for multiple EIAs in the oil sands region, including Shell Jackpine Mine – Phase 1, Canadian Natural Horizon

Project, Suncor Voyageur Project, Shell Muskeg River Mine Expansion, and Suncor Voyageur South Project. The terrestrial RSAs developed for those projects were not substantially challenged and have been found to be reasonable by the regulators in each of the noted applications. In the Canadian Natural Horizon Project Joint Panel Review Decision Report (2004), the Joint Review Panel stated, “[t]he Panel considered the spatial and temporal boundaries that CNRL used in its EIA and concludes that the boundaries are reasonable and reflect the ecological context of the project.”

The RSA used in the PRM EIA was discussed with regulators prior to EIA submission, and throughout the regulatory process to date, and no substantial concerns from regulators were raised about the size of the terrestrial RSA; however, the JPME Decision Report and subsequent PRM R2 SIRs have made it clear that this approach to study area sizing is not acceptable to the JRP. Unfortunately, very little specific direction has been provided to allow Shell to develop an alternative RSA that is scientifically defensible.

Another important issue raised in the R2 SIRs is Shell’s assessment of the PRM Project’s effects on Aboriginal culture and heritage, and the determination of the significance of those effects. Shell acknowledges that the assessment of effects on Aboriginal culture and heritage is an important aspect of an EIA, but notes that it is also a relatively new requirement of the federal environmental assessment process. In its response to the first round of PRM SIRs, Shell included a detailed Aboriginal cultural effects review, and assessments of cumulative effects and project effects on Aboriginal traditional land use. Shell believes its approach to assessment of these effects was reasonable in the circumstances, especially given the limited guidance from provincial and federal regulators; however, the R2 SIRs indicate the JRP found Shell’s assessment to be deficient.

To address the issue of RSA sizing Shell intends to collaborate with, and solicit feedback from, relevant federal and provincial regulators to determine appropriate methodologies. Shell expects to begin these engagements in June 2014, subject to the availability of the relevant regulators. Once Shell has obtained feedback from appropriate federal and provincial regulators, and has developed what it believes to be a defensible methodology, Shell will present the methodology to the JRP for consideration. At that point, Shell expects the JRP may wish to involve interested stakeholders in the consideration of the methodology, and provide a ruling as to the appropriateness of the methodology. A ruling on this issue would establish useful guidance for Shell to develop responses to the R2 SIRs, as well as other proponents and interested parties involved in the federal environmental assessment process. Once Shell receives a ruling from the JRP, it will then proceed to respond to relevant R2 SIRs based on the approved or revised methodology, as the case may be.

With respect to the issue of assessment of effects on Aboriginal culture and heritage, Shell intends to engage appropriate federal and provincial regulators and follow the same process outlined in the above paragraph. In addition, Shell intends to engage in the process Aboriginal groups impacted by PRM to solicit their feedback on an appropriate methodology for assessing effects on Aboriginal culture and heritage. Shell is currently developing its plans for these engagements and will provide the JRP an update on the timing in its next quarterly report.

In addition to the methodology issues above, as part of Shell's review of its development plan for PRM, Shell has identified opportunities to optimize its application and address certain issues raised by the JRP in the R2 SIRs, including development plans for Lease 14 and the location of the external tailings disposal area. To this end, Shell intends to update its PRM application and mine plan information to include:

- Lease 14, which was acquired by Shell in the 2013 lease swap with Teck Resources Ltd., and an additional area of Lease 352;
- A reassessment of the external tailings disposal area location; and
- An updated development schedule that reflects a revised first oil date.

Shell is currently gathering additional field information in support of the inclusion of Lease 14 and the additional area of Lease 352, as well as alternative locations for the external tailings disposal area. This field program will continue throughout the remainder of 2014 and into 2015, and the information collected through the field program will inform the revisions to Shell's development plans.

Shell also intends to conduct further consultations with potentially affected Aboriginal groups to gather additional information to assist in its analysis of potential PRM project effects and cumulative effects on their rights and interests and, in particular, those effects associated with the addition of Lease 14 and Lease 352 to the project area, and alternative locations for the external tailings disposal area.

Shell intends to respond to the R2 SIRs based on the updated mine plan and the methodologies presented to the JRP, assuming such methodologies are found to be acceptable. Shell will also update other aspects of the PRM application as appropriate at that time. In the meantime, Shell will continue to provide quarterly updates to the JRP on the PRM project.

If you have any questions or concerns regarding the proposed next steps on the PRM project, please do not hesitate to contact Gary Millard via e-mail ([gary.millard@shell.com](mailto:gary.millard@shell.com)) or telephone (403-691-2954).

Yours truly,

*<original signed by>*

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