



Improving the competitiveness of Alberta's oil & gas industry

Issue

Alberta's oil and gas industry is fundamental to the broader provincial economy with 42 per cent of provincial GDP derived directly or through associated activities from the sector. Analysis from the Canadian Energy Research Institute (CERI) forecasts that over the next 25 years, oil & gas activities in Alberta will create a total GDP impact of \$2.9 trillion within Canada, providing total tax revenues to the federal government of \$311 billion and \$189 billion in provincial taxes across the country. In addition, oil & gas activity is expected to result in \$12 billion in royalties per year to the Government of Alberta.

Government revenues and economic growth prospects could be jeopardized by a fiscal and regulatory regime that is uncompetitive and unresponsive to emerging trends such as advancements in drilling techniques to unlock huge U.S. unconventional gas reserves (shale gas, coalbed methane and tight gas), opportunities for enhanced oil recovery and climate change and energy security concerns.

Calgary Chamber of Commerce Position

At the heart of the Alberta Natural Gas and Conventional Oil Investment Competitiveness Study is the opportunity to articulate a long-term vision of energy development in the province and create a forward-focused, stable, fiscal and regulatory regime that is globally competitive and responsive to technological change. The key outcome is attracting investment, creating jobs and ensuring economic prosperity for all Albertans.

As studies have shown, businesses of all sizes benefit directly and indirectly from oil & gas activity. To continue to build this prosperity the fiscal and regulatory review must position the province as a global leader in attracting capital and recognize the changing nature of the Western Canada Sedimentary Basin (WCSB) towards 'resource plays' (large unconventional oil & gas deposits that are regionally intensive) and enhanced oil recovery.

Important elements of a fiscal and regulatory regime to deliver efficient oil & gas production in an increasingly carbon-constrained environment should include:

- Securing a Return on Investment (ROI) for investors that reflects the level of risk taken.
- Ensuring predictability and stability to instill trust and confidence for investors.
- Providing economic incentives for the development of the widest range of energy opportunities available and fostering technological innovation and investment in R & D, with particular emphasis on reducing greenhouse gas emissions during production.
- Recognizing that different extraction methods (e.g. enhanced oil recovery, shale gas production, etc.) and the very nature of resource plays (from one-off wells to entire scheme or reservoir developments) result in fundamentally different operations and therefore require alternate fiscal and regulatory frameworks.

5 MINUTE POLICY BRIEFS



- Making improvement of the regulatory process a major ongoing priority with the goals of minimizing the regulatory burden, eliminating duplication and increasing collaboration between regulatory bodies to achieve outcome-based assessments.
- Ensuring producers, large and small, are treated equitably.
- Fostering continuous improvement in environmental management.
- Providing responsive and equitable economic rent from resource development for Albertans.
- Providing an ongoing forum for constructive dialogue with industry to capitalize on emerging opportunities and encourage greater understanding of the impacts of proposed regime changes.

The Calgary Chamber of Commerce recognizes that a parallel stream of regulatory review and analysis is currently underway. It is extremely important, however, that such a review take place within the context of the key points listed above, which summarize the critical drivers of the province's and industries' overall competitiveness. Other variables include access to resources, geology, commodity prices, political climate, currency exchange rates, financial capital mobility and labour costs. These factors should be important considerations in developing the final regime.

Success also means establishing and maintaining a positive and trusting working relationship between the Department of Energy and industry, as the major joint stakeholders in maximizing the potential of Alberta's energy resources. Improved dialogue leads to better understanding of industry investment decisions and the impact of fiscal and regulatory decisions.

Policy Recommendations

The Calgary Chamber of Commerce makes recommendations to the Government of Alberta in several key areas.

Communicate the Vision and Benefits of Energy Development

1. Articulate a vision of energy development in the province, and outline the benefits of jobs and prosperity for Albertans as part of the process to implement future changes that improve the competitiveness of the fiscal and royalty regime.

Target and Certainty

2. Set a goal to make Alberta the most competitive jurisdiction for oil & gas investment.
3. Restore investment certainty through fewer short-term, temporary measures.
4. Provide sufficient time intervals (e.g. at least five years) before another major review takes place, ensure that future reviews are inclusive of industry at the outset, and focus on ensuring that the fiscal and regulatory system continues to be current and responsive to technological change and long-term resource plays.

Fiscal and Regulatory Competitiveness

5. Regularly compare the competitiveness of Alberta's regime internationally to understand capital deployment alternatives, and mitigate against the loss of capital.
6. Adjust the royalty regime to recognize that different extraction methods (e.g. enhanced oil recovery, shale gas production, etc.) and the very nature of resource plays (from one-off wells to entire scheme developments) result in fundamentally different operations with different economic drivers, and therefore require extraction-specific fiscal and regulatory frameworks.
7. Establish a royalty mechanism that optimizes the economic potential for the development of emerging unconventional resources (shale gas, tight oil) and enhanced oil recovery.

5 MINUTE POLICY BRIEFS



8. Ensure adequate upside investment return potential to compensate for investment risk, and encourage reinvestment by:
 - A. Reducing the initial royalty take to allow faster recovery of capital costs.
 - B. Reducing the steepness of the royalty curve (royalty rate increase as price and production increases).
 - C. Incorporating cost factors into the royalty structure to account for cost escalations as prices fluctuate.
9. Ensure data is 'real time' (up-to-date) and, as appropriate, consider external sources of data and financial modeling from world-class energy financial companies.
10. Consider a consolidated approach to environmental assessment, public and Aboriginal consultation for regions that are intensely developed.

Fostering Technological Innovation

11. Encourage innovation and the development of new recovery and environmental technology through various tax, royalty and/or other incentives.
12. Maintain industry and government collaboration in energy research and development to share technological and cost risks (e.g. carbon capture and storage investment partnership).

Constructive Ongoing Dialogue

13. Create a permanent and ongoing forum for industry/government dialogue to address emerging issues, ensure understanding of industry investment decision metrics, and explore opportunities to capitalize on emerging resource development.