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## ALBERTA ENERGY SECTOR WAITS FOR POLICIES FROM NDP

'We don't have any facts, we just have the platform'

The word "fear" has been spoken repeatedly in recent days in the corporate towers of downtown Calgary as the oil and gas sector tries to figure out what a new NDP government will bring to Alberta.

The concern is largely because of the unknown.

"We don't have any facts, we just have the platform," Steve Laut, president of Canadian Natural Resources, told analysts Thursday. "We will respond appropriately when we understand what the platform and policies will be."

Besides saying everything will be A-OK, here are five policy areas that the energy industry is anxious to hear about from premier-designate Rachel Notley.

Clearly, this is the big concern for energy companies.

Notley made no bones about this subject during the election campaign. If elected, she said she would hold a review of the province's royalty



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structure to ensure Albertans are getting a fair return for their non-renewable resources. It's uncertain if she actually wants to make immediate changes. If so, how much would she be looking to increase royalties?

On Thursday, Crescent Point Energy CEO Scott Saxberg told analysts on a conference call that his company could easily shift its investments to either

Saskatchewan or Utah, if the New Democrats hike royalties in Alberta.

The sector has recent memories of the pain felt during the last hike to royalties. The government of former premier Ed Stelmach increased rates in 2007. The move proved to be temporary as royalties were rolled back after major criticism from the oil and natural

gas industries and a significant loss of investment in Alberta.

Rachel Notley, who will soon be Alberta's new premier, will have to explain her party's policies to the energy industry. (CBC)

During the campaign, Notley addressed certain proposed pipeline projects, saying she would

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7:30 AM Morning Flight Shot Gun Start

12:00 PM Afternoon Golf Registration & Luncheon

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7:00 PM Steak or Lobster Dinner - Sponsored by Gilliss Casing Services

11:00 Grounds Closed - Security Sponsored by ARC Resources Ltd.

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**10:00 AM - 7:00 PM SHOW HOURS**

\* 12:00 PM Luncheon Sponsored by Grimes Sales & Service

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\* 12:30 PM Guest Speaker - Hon. Bill Boyd - Minister of the Economy

\* 1:00 PM 2015 Saskatchewan Oil & Gas Recognition Awards

Oilman of the Year & Hall of Fame Inductees - Presented by the Board of Governors

\* 7:00 PM Prime Rib Dinner - Sponsored by the City of Weyburn

\* 8:00 PM Opening Ceremonies - Guest Speakers Hon. Ken Krawetz and Mayor Debra Button

\* 8:30 PM SE Sask. Oilman of the Year Awards - Presented by Weyburn Oilshow Board

\* 11:00 PM Grounds Closed Sponsored by ARC Resources Ltd.

**THURSDAY JUNE 4TH, 2015**

**8:00 AM - 3:30 PM SHOW HOURS**

\* 7:30 AM - 9:30 AM Barnstorming Breakfast Sponsored by PSAC

\* 10:30 - 11:00 AM - PSAC Information Session by Invitation Only

\* 12:00 PM Industry Luncheon Sponsored by Crescent Point Energy

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take a hands-off approach with the Northern Gateway pipeline, which would take oil from Alberta to tankers on the B.C. coast.

Similarly, she would let the Keystone XL pipeline debate play itself out in the United States. The project would take oil from Alberta to refineries and ports on the Gulf Coast.

Notley seemed much more enthusiastic about the potential for EnergyEast, which would take product to refineries in Eastern Canada.

Market access is a top priority for the oil industry.

The process of using sand, water and chemicals to break up underground rock is commonplace throughout Alberta and North

America. In fact, over 90 per cent of the wells drilled and completed are hydraulically fractured, according to Mark Salkeld, CEO of the Petroleum Services Association of Canada.

"It is absolutely necessary," said Salkeld. "It's not new; our members are world experts in fracking."

Fracking concerns are well documented, including the threat to groundwater and the potential for earthquakes.

Any added environmental protections will increase the cost of fracking.

Notley has called for the largest, most profitable corporations to pay their fair share. She has said the wealthiest Albertans should pay more as well.

Specifically, she campaigned on

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raising the corporate tax rate to 12 per cent from 10 per cent. Between the higher tax rates and better collection, the NDP estimates it can raise more than \$800 million in 2015-16.

Industry will also keep a close eye on other taxes and fees, such as the Well Drilling Equipment Tax.

The NDP pledged in its election platform to "phase out coal-fired electricity generation to reduce smog and greenhouse gas emissions." The party also campaigned on a promise to "strengthen environmental standards, inspection, monitoring and enforcement to protect Alberta's water, land and air."

The Pembina Institute, an environmental think-tank, is hoping Notley will introduce a carbon tax.

The group would also like to see the Alberta government speed up the process to phase out existing conventional coal plants. Pembina wants Notley to strengthen environmental regulations; a move it says could help industry.

"Some of the concern with regards to pipelines coming from the oilsands has been with Alberta and whether Alberta is doing its fair share in regards to climate change," said Ed Whittingham, executive director of Pembina.

The oilsands were rarely discussed during the election campaign. Over the years, Notley has suggested the government needed to take more responsibility for the environmental performance of the oilsands and has

talked about the need for a strong environmental protection regime

## PANEL OKS RADIOACTIVE WASTE SITE NEAR LAKE HURON

A Canadian government panel is recommending approval of a controversial plan to store radioactive waste underground in Ontario less than one mile from Lake Huron, prompting a vociferous outcry from U.S. and Michigan lawmakers, as well as environmentalists and residents on both sides of the Great Lakes.

The plan is proposed by Ontario Power Generation for waste — not including nuclear fuel — from the utility's 20 nuclear reactors in the province. The waste varies from old mops, rags, floor sweepings and clothing to significantly more radioactive filters, resins and other materials from closer to a plant's nuclear core.

The utility proposes to store nearly 37,000 square feet of the radioactive

waste in a facility it would construct more than 2,200 feet underground, in a layer of limestone with a 660-foot layer of shale above.

Storage of low- to intermediate-level radioactive waste in a Deep Geologic Repository underground near Kincardine, Ontario, "is not likely to cause significant adverse effects" and "will not affect Lake Huron," a three-member Joint Review Panel found after nearly three years of study and testimony.

But that's not convincing opponents of the plan.

"I don't think they can guarantee that," said Kenneth Kojamanian of Troy, who said it's a bad idea.

"Why put this in an area where's there's a possibility — however remote that possibility may be — to harm one-fifth of the world's freshwater supply? It just doesn't make sense."

The panel's 457-page environmental assessment was submitted Wednesday to Canada Minister of the Environment Leona Aglukkaq, who will determine the fate of

the radioactive waste storage facility within the next few months.

Ontario Power Generation developed the Deep Geologic Repository "with one goal in mind: to create permanent, safe storage for Ontario's low- and intermediate-level nuclear waste," Laurie Swami, the utility's senior vice president, said in a statement. "We are pleased with the panel's conclusion that the project will safely protect the environment."

The panel found that the facility will be built in "thick, stable and solid limestone rock" with very low permeability, meaning liquids and gasses cannot pass through the rock "because it has very few cracks and very few and tiny pores." It would take a water particle at the repository depth in undisturbed rock 10 million years to move 1 meter, the report found.

"The panel is confident that the (Deep Geologic Repository) will perform well in the long term under normal conditions, which would include the degradation of waste containers and seals over time, gas generations, earthquakes and

glaciations," the report states.

But the plan is roundly opposed by Democratic and Republican politicians in Michigan and other Great Lakes states.

State Sen. Phil Pavlov, R-St. Clair Township, said Ontario Power Generation and the review panel never seriously considered an alternative location for the waste. The repository is proposed next to the utility's Bruce nuclear power plant, where much of the waste is currently being stored above ground in containers in storage buildings.

"It's taking the garbage out the back door and burying it in the backyard, right next to our Great Lakes," he said.

U.S. Rep. Dan Kildee, D-Flint Township, sponsored a Congressional resolution with 20 bipartisan cosponsors from around the Great Lakes, calling on President Barack Obama and Secretary of State John Kerry to "ensure that the Canadian government does not permanently store nuclear waste in the Great Lakes Basin."

"One only has to look at other nuclear

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accidents, including recently in New Mexico, where human error resulted in an accidental radiation release," Kildee said. "Human error is always a possibility, and if an accident were to happen on the shores of the Great Lakes, a nuclear radiation release could endanger the freshwater supply for over 40 million people, both in the U.S. and Canada."

Pavlov urged Michigan residents to write to Obama and Kerry, asking them to invoke the International Joint Commission, a joint U.S. and Canadian agency that works to resolve boundary water disputes.

"There's a 1909 Boundary

Waters Treaty that was designed to resolve disputes on the waters of the Great Lakes," he said. "We have a mechanism there, and we have to use it."

A recommendation to approve an underground radioactive waste storage facility in Ontario within 1 mile of Lake Huron is now in the hands of Canada's Minister of the Environment, who is expected to make a decision on the proposal over the next few months.

### NWT HOPES FOR MACKENZIE PERMIT EXTENSION

The minister in charge of resource development in the Northwest Territories says he hopes the federal permit to build the long-dormant Mackenzie Gas Project will be extended.

"We don't want to see all the work that's gone into it just disappear and have to be started all over again at some other point in time," David Ramsay said in an interview from Houston, where he got an update from energy heavyweight ExxonMobil Corp.

ExxonMobil is the majority owner of Imperial Oil Ltd. (TSX:IMO), the Calgary-based company

leading the Mackenzie project.

When the project got its Certificate of Public Convenience and Necessity in 2011, backers were given until the end of 2015 to start construction.

But the proposed pipeline, which would run 1,200 kilometres from gas fields near the coast of the Beaufort Sea to the Alberta boundary, has been put on hold indefinitely.

The natural gas market has been transformed since proponents first filed for regulatory approval more than a decade ago, with shale formations in Canada and the United States providing a closer, cheaper and more



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abundant source of natural gas. In April, Imperial sent a letter to the National Energy Board requesting a meeting "to seek guidance on the process required for the board to consider an extension to the date for commencement of construction."

"While industry circumstances and markets have changed in the intervening years, the project proponents believe the Mackenzie Gas Project remains in the best interests of the North and Canada and will be proposing an extension to this date."

Imperial spokesman Pius Rolheiser confirmed the company has been in talks with the federal energy watchdog "regarding the project's regulatory approval," but that details of those discussions are confidential.

"We're continuing to evaluate options for the project, looking at how changes in the North American natural gas market could potentially influence a path forward for the project," said Rolheiser.

Many in the Northwest Territories had been looking forward to the economic boost that would come from developing its natural gas resources.

Ramsay hasn't given up hope.

"It's important that we get some surety on where that's at," he said.

"It's an extension that would give us some surety that not all that work's going to be lost."

The best hope for Mackenzie gas would be to feed it into a liquefied natural gas export terminal on the British Columbia coast, said Ramsay.

Exxon and Imperial are contemplating building an LNG plant with a price tag as high as \$25 billion near Prince Rupert, B.C., but has a lot of work to do before it can decide officially to proceed.

Ramsay said he's not sure how long an extension would be needed, but "five years would be a good place to start."

## ALBERTA'S ENERGY ROYALTIES: AN ELECTION EXPLAINER

Trying to sort out how much Alberta gets from its natural resources

Energy royalties have come up repeatedly in Alberta's provincial election campaign. There is a sense among some Albertans that we are not getting enough revenue from our natural resources.

That may or may not be true. The problem is that the royalty regime in Alberta is ridiculously complex, so complex that it's hard to know what the royalty rates are or how they compare to other provinces and countries.

Some of the things Alberta's royalty rates depend on are the price of oil, natural gas and other liquids, the production levels of an individual well, the age of a well, the depth of a well, the capital costs of an oilsands project, the value of the Canadian dollar, and the return on a Canadian government bond.

So, in an attempt to clarify an issue many Albertans are wondering about, down the rabbit hole we go.

The conversation about royalties tends to begin with the oilsands. Oilsands royalties are based on two things: whether the project has paid for its start-up capital costs and the price of oil.

It's very expensive to build an oilsands project. The provincial government encourages development in the oilsands by charging as little as one per cent royalty rate during the start-up phase. That one per cent holds if the price of WTI (West Texas Intermediate) is below \$55 per barrel and moves up from there.

There's a roughly 60/40 split between projects that have recovered their start-up costs and those that haven't.

If a project has paid off its start-up costs, the royalty rate can be as high as 40 per cent of net revenue, meaning profits from oilsands production. The price of oil needs to be

\$120 before that royalty rate kicks in.

In practical terms, in the 2015-2016 fiscal year, the provincial government forecasts that it will earn \$1.3 billion in bitumen royalties. Working on the assumption of 2.3 million barrels per day of oilsands production, the government will be collecting \$1.54 per barrel of oil this year, a 72 per cent drop from the last fiscal year.

Alberta is expected to produce 575,000 barrels a day of conventional crude this year, about 80 per cent of which is on crown land and pays a royalty to the government. The royalty rate paid from the production of this oil is different for each well in the province. To repeat: every well pays a different royalty rate, depending on the production level of the well, the price, the age and the depth.

According to a report done by the University of Calgary's School of Public Policy, nine per cent of Alberta's production comes from wells that produce less than six barrels of oil a day, which pay between zero and five per cent royalties.

Most of the royalties come from the provinces higher-producing wells — the ones that produce more than 118 barrels per day, those wells pay a royalty rate of up to 40 per cent.

However, there's an exception for new horizontal and vertical wells that have a larger up-front cost. Those wells pay a royalty rate of up to five per cent for up to four years depending on the depth of the well. The same report from the University of Calgary estimates approximately 118,000 barrels per day pay that maximum rate of five per cent.

As you can see, it is basically impossible to come up with a single number to accurately describe the royalty rate of Alberta's conventional oil wells, but let's look at the province's own forecast.

It expects to earn \$594 million from conventional oil in this fiscal year, on crown production of 460,000 barrels per day of production that averages out to a \$3.53 per barrel.

That number was four times higher

in the last fiscal year, when oil prices were nearly double where they are now.

Natural gas royalties also depend on the price of gas, the production level and depth of the well. Royalties from natural gas production are expected to drop by more than half this year fiscal year to \$450 million, again because of lower prices.

That's based on production of 4.7 trillion cubic feet of natural gas produced each year, approximately 80 per cent of which is on crown land. A very rough estimate shows the province earning, on average, 11.3 cents per gigajoule of natural gas in the current fiscal year. The average price of natural gas in Alberta last month was \$2.54 per gigajoule.

You can see from the numbers above that royalties have dropped far more quickly than the price of either oil or natural gas. That's a result of Alberta's royalty review in 2006 and 2007. At that time oil and natural gas were reasonably buoyant and Albertans felt they weren't getting a fair share of the price increase.

So the province changed royalties to include a sliding scale, the higher the price, the higher the royalty.

"The downside of that is that when prices crash, you're giving up a lot," said Andrew Leach, energy economist at the University of Alberta.

Leach says the complexity of the royalty regime is caused by competing visions on what it's supposed to accomplish

"If you ask ten different Albertans what they want the royalty regime to do, one of them will say revenue, one will say jobs, one will say investment, and one will say something else. So you have a royalty regime that tries to do all of those different things."

Leach welcomes more transparency in the system.

"We're getting the message that just asking whether the system is doing the job it's supposed to do, is not really in our interest. I don't think that's the right message to send to people."

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