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OILPATCH-FRIENDLY ROYALTY SYSTEM TAKES EFFECT IN ALBERTA

Provincial government made only small changes to how much companies must pay in royalties

As the calendar flipped to 2017, Alberta's oilpatch will begin paying the government under a new royalty system that took five months and cost $3 million to review — but basically looks the same as it did before.The NDP had vowed before their election victory to make sure oil companies would pay more to taxpayers for pulling the resource out of the ground. After the review, however, the government admitted it changed its stance.With growing unemployment and the oilpatch bleeding red ink during the downturn, Premier Rachel Notley conceded to reporters, "it is not the time to reach out and make a big money grab, because that is just not going to help Albertans."The review panel found existing royalty rates charged in Alberta were comparable to other jurisdictions. In 2017, oilsands rates will not change and the new royalty structure for oil, liquids and natural gas will only apply to new wells, while old wells stay under the existing system for 10 years. The oilpatch feared the worst, but ended up overwhelmingly supporting the results of the review. The Canadian Association of Petroleum Producers, the Petroleum Services Association of Canada and the Explorers and Producers Association of Canada all endorsed it.Some companies were so enthusiastic about the new policy that they applied for early access. For instance, Encana spent $25 million to drill new wells in the Duvernay-Montney basin in northeast Alberta. That spending would not have happened without the royalty changes, according to the Calgary-based company."It allows for investments in Alberta to compete with those in the U.S.," said Michael McAllister, Encana's chief operating officer, at a conference in October. Critics had wanted a better deal for Albertans, instead of catering to the oilpatch. Jim Roy, president of Delta Royalty Consulting and a former royalty advisor for Alberta Energy, said some of the royalty reductions in the past could have been eliminated, and there was no need to give companies incentives for drilling new wells in the province. The incentives are the biggest change under the new royalty system, as the review panel wanted to find a way to push companies to be more efficient in their operations and adopt new technology.Companies will pay a five per cent royalty rate until they have paid off the capital costs of drilling a new well. Once that happens, a higher royalty rate will kick in.The important point in the equation is that the government will use an industry average to decide what the capital costs should be. That will give companies incentive to drill wells more cheaply so they can pay a lower royalty rate for longer. The less efficient players will have to start paying higher royalties before earning back the cost of drilling the well."We designed it so that it recognizes technological change, it's not rigid or fixed. It rewards those who can get their costs down and compete," said Peter Tertzakian, a Calgary energy economist, at a conference last month. Tertzakian was regarded as the key member of the government's royalty review panel, who did much of the heavy lifting."I wanted the conditions to reward those producing a barrel of oil at a lower cost and conversely, if you don't do that, sorry, you shouldn't be competing," he said. The key points of the report are:Albertans are receiving their fair share.Oilsands royalties won't change.Conventional oil and gas wells will pay a minimum royalty of five per cent of revenue until they have recovered costs.The system will reward the most efficient drillers.Alberta markets will be developed for the use of natural gas.

ALBERTA, CANADA KICKS OFF NEW CARBON TAX

The Canadian province of Alberta has started the new year with a carbon levy, which together with tougher rules for large industrial emitters will cover 78-90% of Alberta's emissions. As originally announced in 2015, the carbon levy has been charged on all fuels that emit greenhouse gas emissions, depending on the circumstances, from January 1. The rate is CAD $20/tonne in 2017 and $30/tonne in 2018 and is based on the amount of carbon pollution released by the fuel when it's combusted.Over the next 5 years, the levy is expected to raise $9.6 billion. Of that, $3.4 billion will be go towards supporting large scale renewable energy, bioenergy and technology. $2.2 billion will be plowed into green infrastructure, including public transit; and $645 million is earmarked for the Energy Efficiency Alberta program. The remaining $3.4 billion will go towards assisting mitigate the impacts of the levy on low and middle income families, businesses and other groups. The cost of electricity isn't expected to increase as a result of the carbon levy as the emissions of major electricity generators are already covered under the SGER framework until the end of 2017. Among the exemptions are farm fuels. Farmers are also getting additional assistance through programs such as the On-Farm Solar PV Program; which will assist with the purchase of grid-connected solar panel systems. As for the elephant in Alberta's living room, tar sands operations, these facilities are currently charged a Specified Gas Emitter Regulation (SGER) levy. Looking ahead, the arrangement will transition to an oil sands-based performance standard for the carbon price and an overall limit to oil sands GHG emissions will come into play. Tar sands operations account for approximately one-quarter of Alberta's annual emissions.

Alberta's government aims to phase out all coal-fired power in the province by 2030 and has set a 30 percent target for renewable energy production. Nationally, Canada will see the end of conventional coal-fired electricity generation by the same year.In other related news from Alberta, in late December the government increased the size limit on what it refers to as green "micro-generation" plants from one to five megawatts. These systems, predominantly based on wind and solar power technology, are now also permitted to supply power to adjacent sites."These changes will provide even more opportunity for Albertans to reduce their reliance on the grid and benefit from the choice to generate clean electricity," said Margaret McCuaig-Boyd, Minister of Energy. "They provide more options and enable larger projects, and will contribute to our province's target of 30 per cent renewable electricity by 2030."

OILSANDS GIANT CNRL FINED $10,000

The accident that killed two workers Oilsands Company admits to unprofessional conduct on how it dealt with contract engineers. Canadian Natural Resources has been fined $10,000 by Alberta's professional engineering society — the maximum allowed — following an investigation into an accident at an oilsands site that killed two and injured five.The Association of Professional Engineers and Geoscientists of Alberta said Wednesday that the company has admitted to unprofessional conduct on how it dealt with contract engineers.On April 24, 2007, workers were building a 20-metre-high oil tank at the Horizon oilsands project north of Fort McMurray, Alta. when cables holding up a roof support structure snapped due to high winds.The falling steel structure broke apart, with steel debris striking an electrical consultant, killing him. A scaffolder was crushed and died on the way to the hospital.Two other workers were seriously injured and three others suffered minor injuries. The engineering association found that the steel cables supporting the roofing structure were inadequate and did not meet regulations, and that the person who designed the construction procedures was not a professional engineer in Alberta.In addition to the fine, the association said Canadian Natural Resources will have to pay, up to a maximum of $150,000, to help develop a new practice standard on outsourcing engineering and geoscience work in the province.Canadian Natural Resources said in a statement that it is looking forward to developing the new standards and that a senior member of its leadership team will actively participate and work together with the association on the initiative.The company also said that it had changed its safety practices following the tragedy and now requires contracting companies to provide evidence of qualifications before engineering work is done."We take every incident seriously," said company spokeswoman Julie Woo in an email. "Following this incident, CNRL took steps to advance our processes to ensure health and safety standards are consistently met by all contractors."Last February, Alberta Occupational Health and Safety released the results of its investigation into the accident and concluded that the company did not do enough to ensure that one of its contractors had construction plans certified by a professional engineer. Sinopec Shanghai Engineering Co., the Chinese engineering firm that Canadian Natural Resources contracted out to, pled guilty in 2012 to three workplace safety charges, while 29 charges against Canadian Natural Resources were stayed.Engineering association spokeswoman Gisela Hippolt-Squair said the association is reviewing provincial legislation for the first time in 30 years and plans to recommend increasing the maximum fine for permit holders to $500,000 per violation.