

# Pipelines: Delivering Benefit

Alberta Royalty Review Panel

Calgary  
May 23, 2007



- **Thank you for the opportunity to present**
- **My message today is in three parts:**
  - **We need to ensure that Albertans receive the maximum benefit from the development of their resources;**
  - **This goal cannot be achieved through policy tinkering; and**
  - **Alberta must develop a business plan in the form of a strategy that maximizes resource development benefits and eliminates the associated risks.**

## CEPA Members

- Transport 97% of the crude oil and natural gas produced in Canada
- Oil pipeline system near capacity
- New natural gas supply needs to be connected to existing pipeline systems
- Collective assets must double in next 15 years

### Full

- TransCanada
- Enbridge
- Spectra
- Alliance
- Kinder Morgan Canada
- TransGas
- ATCO
- Trans-Northern
- Foothills
- Trans Québec & Maritimes

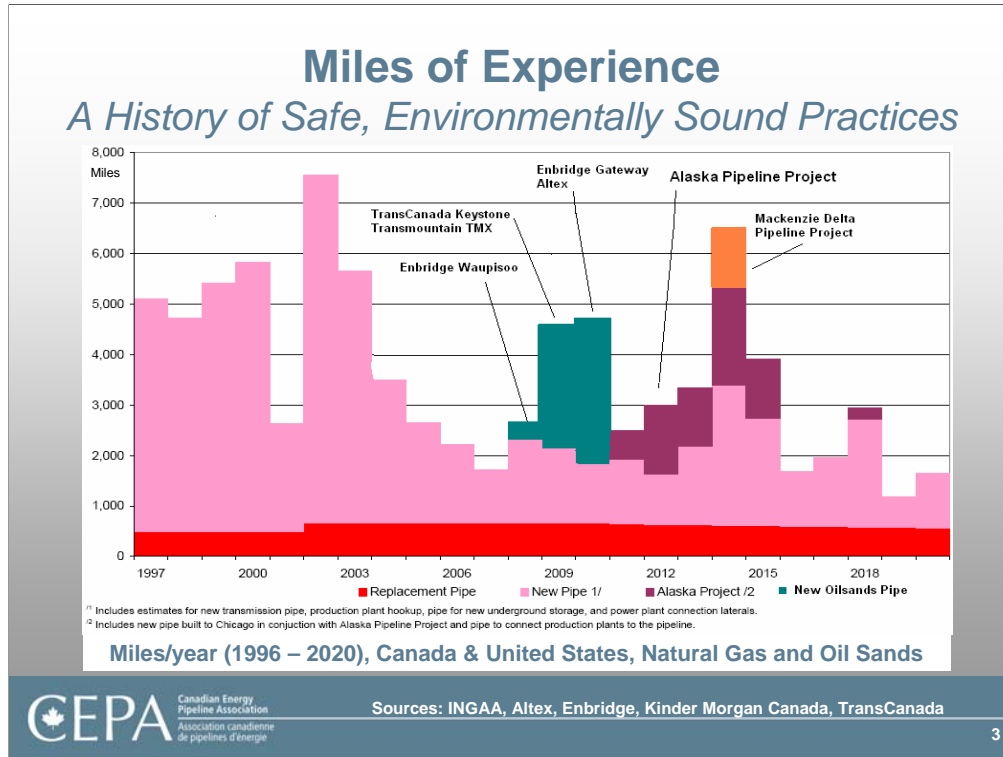
### Technical

- Pembina Pipelines
- BP Canada Energy Company
- Maritimes & Northeast Pipeline

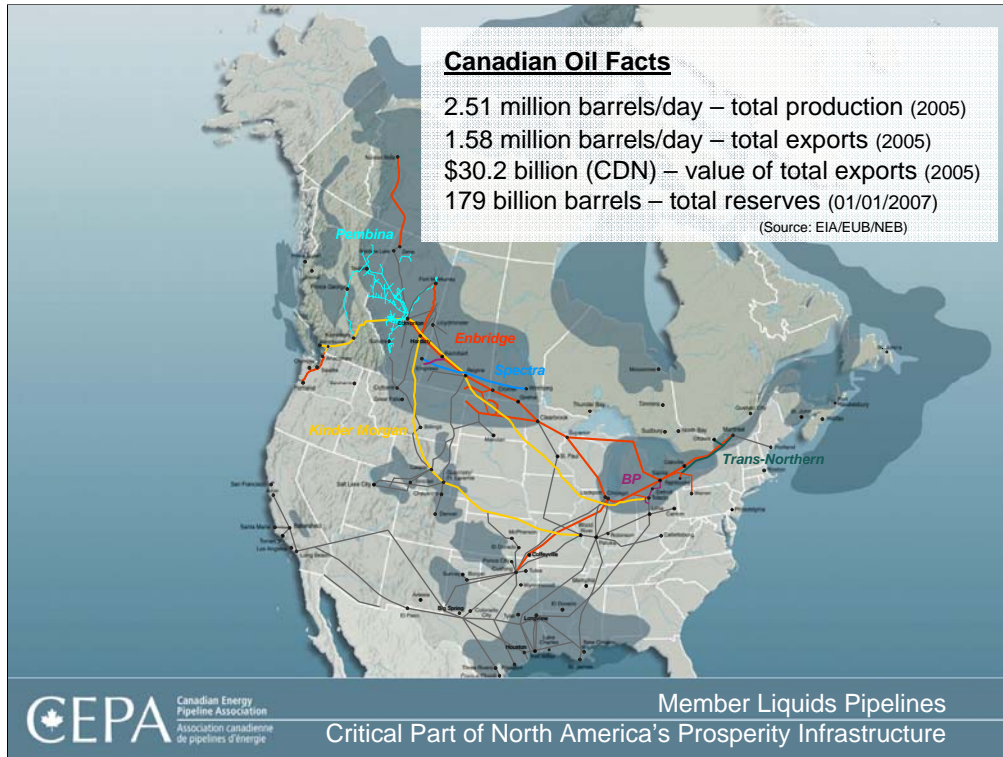
•First, a brief summary of who we are

•CEPA's members transport 97% of the crude oil and natural gas produced in Canada

•The oil pipeline system in Canada is near capacity and, as such, CEPA's members will be making significant investments in the coming years so as to prevent oil sands production from becoming stranded

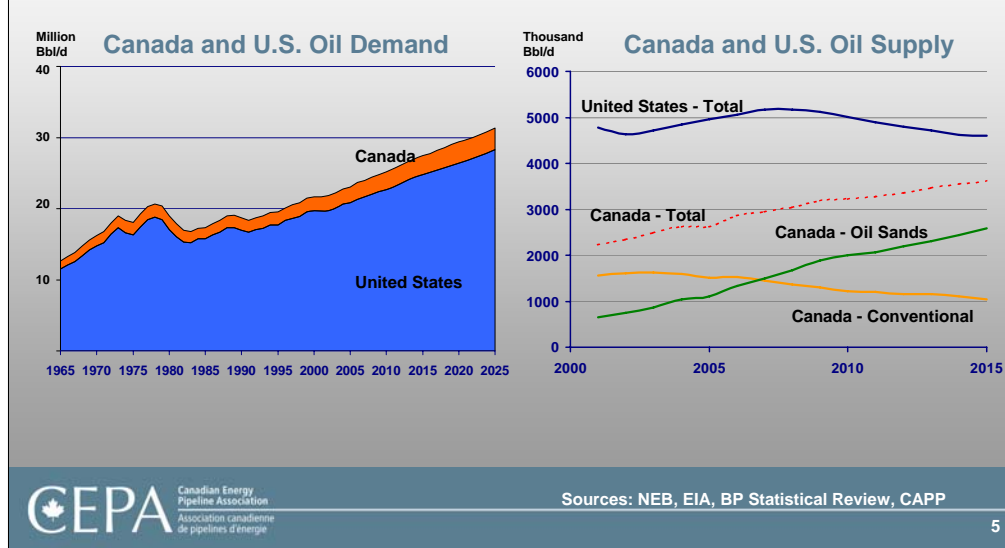


- While the next decade will see significant pipeline expansions taking place, this activity level is not new for our members
- The past ten years have actually seen as many kilometres of pipeline system get developed as is anticipated over the next decade
- Even with these activity levels, our members have a world-leading record of safe and environmentally sound operating practices
- In Canada, it has taken us 60 years to build the existing network of pipeline systems
- Over the next 15 years, CEPA's members' collective assets will double in order to meet the anticipated supply increase, especially from the oilsands



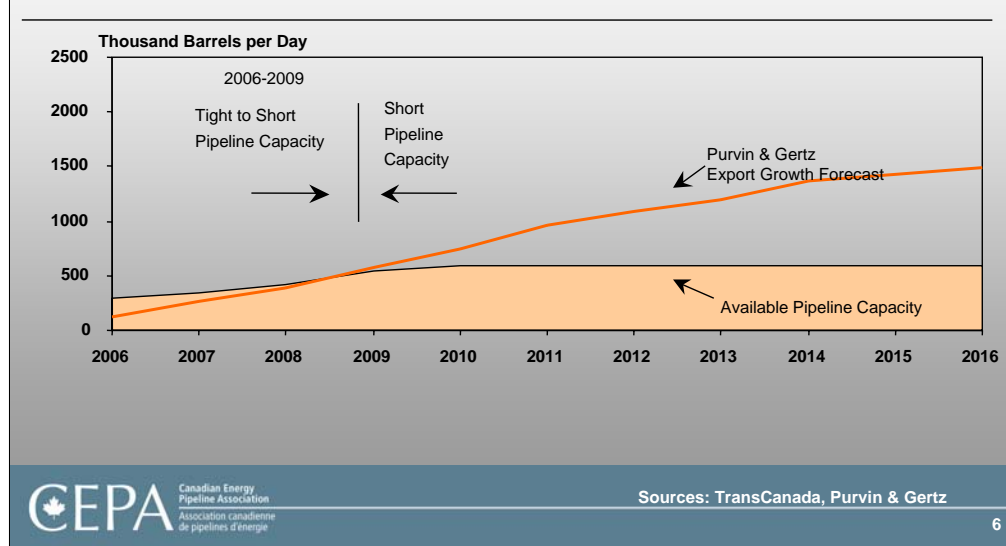
- **Canadian pipelines, as part of the integrated North American pipeline system, provide for the energy needs of over 400-million people, directly and indirectly create hundreds of thousands of jobs and generate billions of dollars of revenues for governments**
- **Exports of oil and natural gas are a prime reason for Canada's balance of trade surplus**
- **CERI's October 2005 study, *Economic Impacts of Alberta's Oil Sands*, shows that, through the development of the oil sands alone, governments will benefit to the tune of \$123 billion from 2000-2020**
- **The activity of the oil and gas industry clearly spells opportunity for all Canadians**

## Oil Demand Increasing *Additional Oil Sands Production Key*



- Demand for oil is projected to continue to increase
- And the positive news, given the location of the oil sands, is that Alberta has the supply to meet that demand
- With 175 billion barrels of proven reserves, and 2.5 trillion barrels ultimately recoverable, Alberta and Canada will be beneficiaries of this massive reserve for generations to come

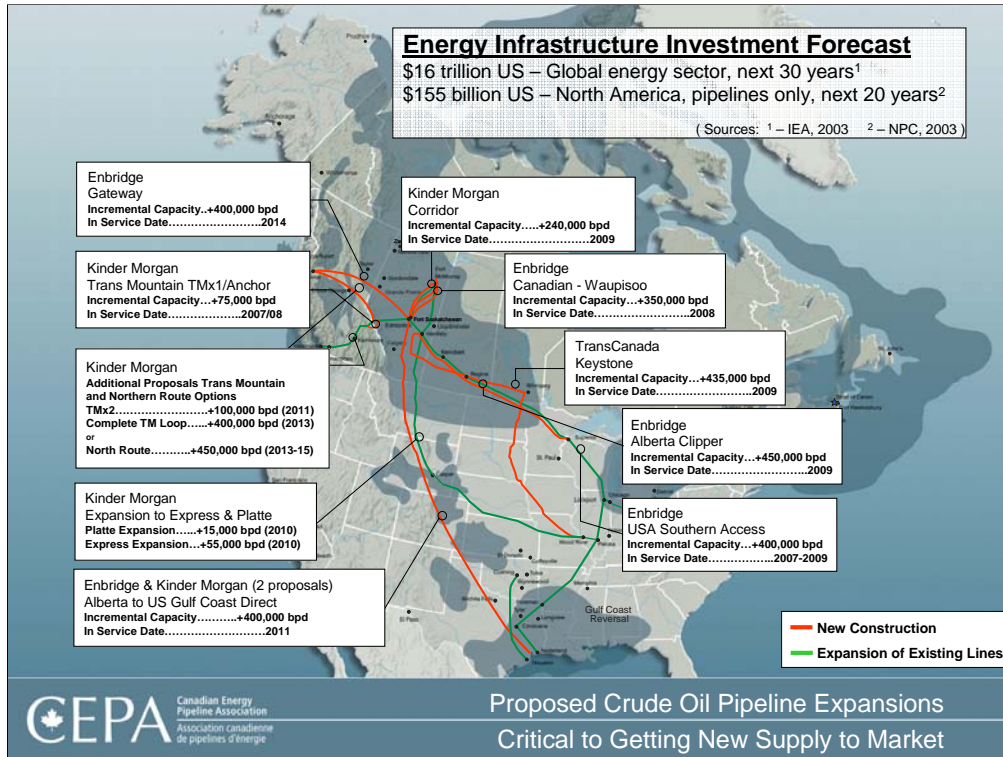
## Oil Pipeline System Near Capacity *New Pipeline Capacity Urgently Needed*



- However, to benefit from the potential represented by the oil sands, it will be necessary to develop additional pipeline capacity

- Canada's oil pipeline system is virtually full, with little existing room for expansion. According to the Canadian Association of Petroleum Producer's 2005 *Crude Oil Pipeline Expansion Summary*, about 600,000 barrels/day of new capacity will be required by 2015

- A Purvin and Gurtz study done on behalf of TransCanada PipeLines, shows that by 2009 production increases will be such that, without additional pipeline capacity, bottlenecks will arise and, even worse, production will have to be shut-in



- The expansion plans of our members require significant capital investment
- The National Petroleum Council, an advisory group to the U.S. Energy Secretary, forecasts that in North America, for pipelines alone, US \$155 billion of investments will be required over the next 20 years – just to keep pace with anticipated demand
- This doesn't even count investments in CO2 pipelines – investments which are critical to mitigating the GreenHouse Gas emissions associated with developing the oil sands and other energy intensive processes

## Pipelines: Delivering Benefit

### Career & Business Opportunities

- Engineers
- Accountants
- Process and field operators
- Electricians
- Instrumentation specialists
- Welders
- Equipment operators
- Building trades
- Information systems
- Geotechnical
- Wildlife monitoring
- Traditional knowledge specialists
- Land owner relations specialists
- Equipment supply/maintenance
- Charter air services
- Catering and accommodation
- Camp and site security services

- **A typical 1,000 kilometre pipeline project will benefit all Canadians**
  - Creates 12,000+ person years of work
  - Adds almost (CDN) \$1 billion to Canada's GDP
- **Demonstrated commitment to health, safety and environment**
  - No ruptures or leaks on member transmission pipeline systems under NEB regulation (2003-2005)
- **Pipeline companies invest locally through employment, taxes and goods and services purchases**
- **Two-thirds of the energy used by Canadians is carried by CEPA member pipelines**

**•A typical 1,000 kilometre pipeline project will create over 12,000 person years of work and add almost CDN \$1 billion to Canada's Gross Domestic Product**

**•In 2006, the oil and gas industry paid over \$27 billion directly to federal and provincial governments.**

**•Pipeline companies, like the broader oil and gas industry, invest locally through employment, taxes and the purchase of goods and services**

## Alberta's Royalty Regime is Fair

- **CEPA recommends that the provincial government not change Alberta's oil and gas royalty regime**
- **Reward to government high, risk is low**
  - 49 per cent of the net revenue goes to the government
  - 51 per cent of the net revenue goes to the investor
- **The Alberta royalty system is reviewed by the Department of Energy on an ongoing basis**

- **Now to the issue that has sparked the creation of your panel**
- **CEPA is opposed to any changes to Alberta's oil and gas royalty regime**
- **While shouldering virtually no risk, the combined federal and provincial government revenue reward is generous**
- **Furthermore, we believe that the mechanism in place to ensure that Albertans are getting their fair share is effective**
- **This mechanism provides for a comparison of Alberta's royalty structure against those from other jurisdictions that we are competing against**
- **And it is this type of systematic, comprehensive review that we think is most effective**

## We Are Globally Competitive...

- In a comparison of global fiscal regimes for oil...
- Canada ranked 79<sup>th</sup> out of 324
- Comparable to US Gulf Coast, Alaska and Australia
- “Alberta’s position is one that results in a good balance of revenue to the government and the international attractiveness to the developer taking the investment risk.”

- It is critical to reinforce the message that we are competing against jurisdictions from around the globe, and that it is vital that we do everything as a province, and a country, to improve our competitive standing
- In his 2002 publication, *World Fiscal Systems for Oil*, Pedro Van Muers ranks Canada 79<sup>th</sup> out of 324 countries in a comparison of the competitiveness of fiscal regimes for oil projects
- While other factors such as political risk, size of the resource, access to markets and cost trends are also important, this ranking means the Alberta Oil Sands fiscal regime is less onerous than that of Norway, similar to competitors such as the US Gulf Coast off shore, Alaska and Australia and more onerous than fiscal regimes in places such as Brazil, Kazakhstan and the United Kingdom.

## ...but Risk to Alberta is Increasing

- **Oil sands costs up 2 – 3 times since 2001**
  - Labour and material
  - Climate change reduction programs
  - Government of Canada elimination of:
    - ▶ Accelerated Capital Cost Allowance
    - ▶ Income Trust tax benefits
    - ▶ Deductions on interest paid to make foreign investments
  
- **Oil prices up 2 – 2.5 times since 2001**

- **That success can't be taken for granted**
- **Risks to the industry, and to our economy, are growing each day**
- **Indicators in the U.S. suggest that our principle export market may be experiencing a slowing economy**
- **And home grown risks are no less of a threat...**
- **In addition to those listed, and between 2000 and this past January 1st, the oil and gas industry has been paying federal tax on income at a rate at times 3-5% *higher* than the rest of corporate Canada**
- **And as costs rose two to three times since 2001, the commodity price was up no more than two to two-and-a-half times during the same period**

## Don't Kill the Goose!

- **Over 30 % (\$3.7 billion) of Alberta's 2006-07 total resource revenues from oil sands**
- **42% of provincial GDP derived from oil and gas industry**
  - About 15% (\$23 billion) from direct activity
  - Remainder is indirect and induced

- **Over 30 per cent (\$3.7 billion) of total resource revenues collected by the Alberta government in 2006-07 were from oil sands royalty and lease bid payments**
- **42% of provincial GDP is derived from the oil and gas sector, with about 15% (\$23 billion) the result of direct activity**
- **But the wider indirect and induced impact of the industry is what is truly remarkable**
- **Through increased demand for geological, drilling, accounting and technological services...**
- **and through induced activity such as increased consumption and investment associated with higher incomes and profits, the success of the oil and gas industry is important to all of us**

## Why Do We Care About Royalties?

- **Alberta's future growth potential limited without pipeline expansions**
  - Alberta heavy oil will remain hostage to one regional market in the US
  - Result is depressed prices as producers not able to ship to other markets paying higher commodity prices
- **Reduced market diversity, combined with higher costs and changing tax regimes, will depress production**
- **Albertans lose jobs and their quality of life is negatively affected**

## But the Real Problem is...

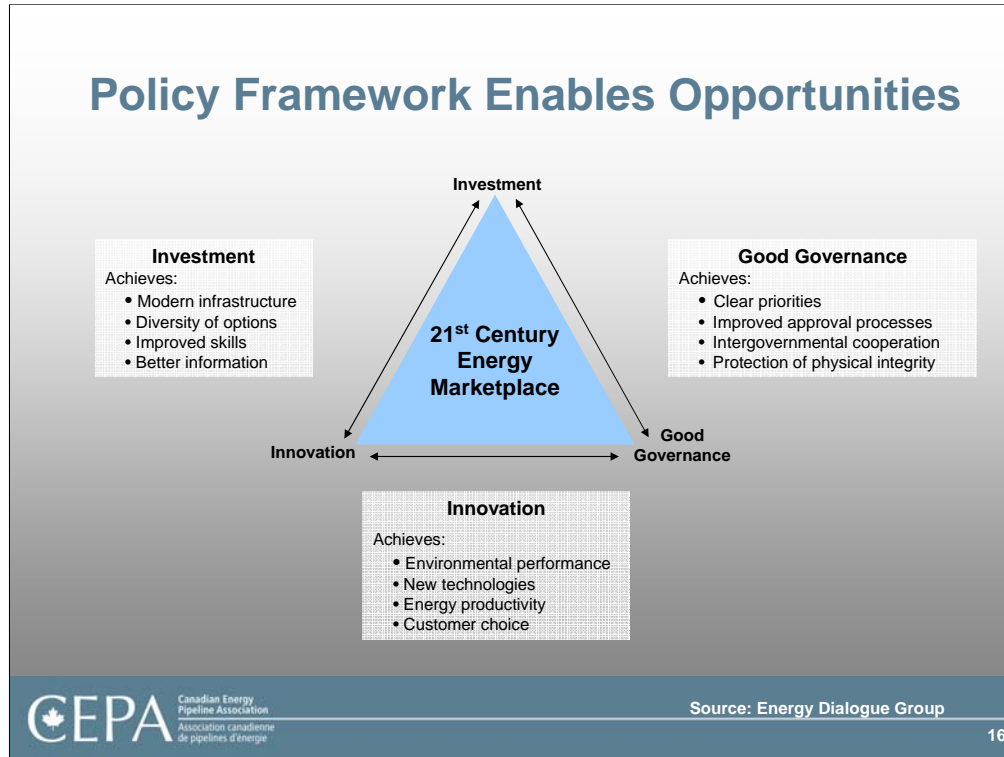
- **A failure to properly plan for the growth we are currently “enjoying” has led to a host of concerns for Albertans**
  - Growth costs outweigh the benefits
  - Multiple land-use demands are increasing
  - Healthcare, education, roads and other community infrastructure swamped
  - No way to register concerns

- **However, it is CEPA’s contention that Albertans have not really asked for a royalty rate review, so much as a window into the resource development process**
- **In fact, we believe they are really looking for an answer to the questions of:**
  - **What is the long-term plan?**
  - **How do I benefit?**
  - **Does the policy and regulatory system protect and promote my interests?**
- **Our members hear consistently from individuals across this province that while the benefits of development might be accruing somewhere – it isn’t to them – and certainly not in their community**
- **This belief is exacerbated by a variety of issues such as:**
  - **increasing land access demands from a variety of sectors;**
  - **Healthcare and education systems that are overwhelmed;**
  - **and**
  - **A feeling that they have no way to register their concerns over the pace and lack of planning around development**

## What Can be Done?

- **Provide Albertans with information on development process**
  - How do governments and regulators protect their interests?
  - How to engage in the regulatory process when they are directly affected by a project?
  - What are the benefits of development?
- **Land access fatigue needs to be addressed**
  - Develop integrated land-use planning guidelines
  - Examine potential for development corridors
- **Improve efficiency and effectiveness of regulatory regime**
  - Improve accountability through performance reporting and by benchmarking Alberta's regime against others
  - Ensure adequate agency capacity

- **So what can be done?**
- **Government, regulators and industry can provide Albertans with information on:**
  - **How governments and regulators protect the public interest;**
  - **How to engage in the regulatory process when they are directly affected by a project; and**
  - **The benefits of development**
- **Land access fatigue can be addressed by:**
  - **Developing integrated land-use planning guidelines; and**
  - **Examining the potential benefit of development corridors**
- **There is also a need to improve the efficiency and effectiveness of Alberta's regulatory regime by benchmarking it against other jurisdictions**



- **But above all, Alberta needs a game plan**
- **Alberta must develop a policy framework that charts a sustainable growth path**
- **One that maximizes the benefits of resource development while minimizing the risks**
- **Strengthens our competitive standing globally, and makes Alberta a beacon for investment**
- **But most importantly, a strategic plan that will provide Albertans with an improved understanding of what the goals are, how they benefit and a belief that their interests are being effectively protected and promoted**

For more information, please contact:

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- **Thank you for your attention and the opportunity to present**
- **I would be pleased to answer any questions that you might have**