RMA
RURAL MUNICIPALITIES of ALBERTA

Natural Gas Advisory Report

RMA Summary and Analysis

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INTRODUCTION

In May 2018, the Government of Alberta appointed a Natural Gas Advisory Panel to provide advice and recommendations to the Minister of Energy on short-to medium-term actions the Government of Alberta could take to improve outcomes and Alberta's interests related to natural gas. The panel consisted of experts in the natural gas industry, including past presidents and CEOs of major natural gas and pipeline companies in Alberta. The Natural Gas Advisory Panel collected their information by face to face meetings and a survey with upstream producers, major pipeline operators, industry associations, storage companies, natural gas consumers, and government regulators. Based on the collected input from the stakeholders, the Natural Gas Advisory Panel developed a final report that identified six high-level outcomes and 48 recommendations as to how Alberta's natural gas industry could be strengthened.

The report was commissioned because the market for Alberta natural gas is oversupplied, which has resulted in prices, and therefore industry and government revenues, to be significantly lower and more volatile since 2017.

Approximately one year later, in spring 2019, many of the challenges facing the natural gas industry have remained, and in many cases, intensified. In April 2019, Trident Exploration ceased operations, walking away from responsibility for approximately 4700 wells across the province, and unpaid tax obligations to eight rural municipalities (according to information the company provided to the AER). A letter by the Trident CEO indicated the following:

> *Trident is under severe financial strains resulting from several factors beyond its direct control. A few of these factors include (1) the ongoing and unprecedented low price of natural gas, (2) extremely high rural municipality taxes, (3) the high cost of operations, and (4) costs of surface lease rentals. As a result, every possible effort is being made to keep the company financially viable through these difficult times.*

In response to this letter, Premier Kenney stated that "his government would be meeting with municipalities to raise concerns identified by Trident about high property taxes." The success of the oil and gas industry has been a focus of the newly elected provincial government, demonstrated by the appointment of an Associate Minister of Natural Gas.

An article in the Calgary Herald titled "Alberta gas producers face 'full-on crisis' as UCP meets with sector for solutions" stated that Associate Natural Gas Minister Dale Nally is looking at the recommendations from the Natural Gas Advisory Report, as well as matters such as municipal taxes imposed on gas wells. These comments raised concern among RMA staff and an analysis of the report was undertaken to see what potential recommendations throughout the report could have an impact on municipal taxation, and the extent to which the issues identified in the report align with more recent concerns raised by industry and government representatives that municipal taxes are a driving factor behind the natural gas industry's struggles.

RECOMMENDATIONS

The Natural Gas Advisory Report produced six key outcomes and short to medium term goals based on the input received from stakeholders in the natural gas sector:

1. **Grow the Pie- Improve Market Access for Natural Gas-** Alberta must intentionally and aggressively grow the natural gas industry in Alberta and pay particular attention to market access. In a carbon-constrained future, the transition to lower carbon fuels will drive growth in natural gas use in North America and globally. Alberta has an opportunity to position itself as a competitive and responsible place for future natural gas investment.

    - Short-term (within two years):
        - Secure a second world- scale west coast LNG project that achieves its final investment decision by Dec 2020.
        - Launch aggregate credit support pools so smaller producers can enter long-term pipeline commitments.
    - Medium-term commitments (within five years):
        - Renegotiate and modernize the “regulatory compact” to maximize industry growth and Alberta prosperity,
        - Achieve greater system flexibility and responsiveness through spare pipeline capacity on critical pipeline segments.

2. **Encourage Industry Durability and Long- Term Sustainability-** Alberta must set the direction and get the vision and foundation right. This requires meaningful and immediate attention to regulatory modernization that provides investment certainty and competitive timelines, while also addressing environmental protection, public interests, and social rights.

    - Short-term (within two years):
        - Set the vision and a strong Government of Alberta position on natural gas, including market access, competitiveness and public interest decision-making
        - Get major project decision-making right by ensuring it is timely, focused, and competitive.
    - Medium--term (within five years):
        - Report annually on progress against the six key outcomes for at least six years as this is a fundamental “dashboard” for Alberta’s success and requires focus and course correction.

3. **Reduce Dwell (regulatory inefficiency)-** Alberta needs to be responsive. Inefficiencies and dwell can no longer be tolerated. We are competing in a fast-paced, global environment with limited windows of opportunity.
    - Short-term (within two years):
        - Establish finite, competitive timeframes for each stage of more complex, non-routine application approvals,
        - Act as a facilitator with TransCanada and producers/shippers on plans to increase capacity on constrained sections of the Nova Gas Transmission (NGTL) system.
    - Medium-term (within five years):
        - Seek alternative proposals for capacity additions within Alberta (as these would not be federally regulated).
        - Be ready for more timely capacity additions by using a pre-approval process and "trigger ready" projects.

4. **Improve Transparency and Accountability-** Information asymmetry undermines Alberta prosperity, and the complexity of market systems today makes it more difficult to compete on a level playing field.

    - Short-term (within two years):
        - Direct regulators to ensure their websites have a readily visible "performance metrics" tab where application duration guidelines and actual performance against these guidelines can be monitored and reported.
        - Request transmission companies to disclose incremental capacity "rolled-in" projects (the debottleneck stack) planned for at least the next three years.
    - Medium-term (within five years):
        - Advocate with the National Board of Energy (NEB) to require secondary capacity to be auctioned through a transparent market as detailed by the North American Energy Standards Board.
        - Advocate with NEB to align transporter and shipper interests by implementing some form of US style reservation charge credits.

5. **Drive for Continual Improvement-** There must be focus on whole cost and tax structures, regulatory oversight, Crown consultation, and land access. Leveraging best practice and driving even better performance is essential.

    - Short-term (within two years):
        - Work with the Alberta Energy Regulator (AER) to align and leverage pipeline industry performance improvement systems, including the Canadian Energy Pipeline Association (CEPA) Integrity First program, with regulatory standards and performance metrics.

    - Direct transmission pipelines to disclose both annual maintenance plans and the actual outcome of maintenance projects.
- Medium-term (within five years):
    - Advocate with the NEB to provide incentive tolling upside for pipelines aligned with producer requirements for greater throughput.
    - Report annually on improvements in regulatory procedures, including improvements in Indigenous consultation.

6. **Implement Practical Government Oversight-** Alberta must implement oversight that will be best for the future success of the natural gas industry (i.e. review associated mill rates for property tax purposes).

    - Short-term (within two years):
        - Advocate with regulators and industry for asset collaboration between pipelines
    - Medium=term (within five years):
        - Direct regulators to support standard digitization and re-use of previously generated application supporting data
        - Implement a three-year, phased- in-approach to establish market values for wells, flowlines, and gas production facilities; review associated mill rates for property tax purposes.

Of these recommendations, only the last one directly affects municipal tax revenue (more information on the recommendation is available on page 32 of the report):

> *For example, surface rentals, government taxes, and provincial and municipal fees represent 55 per cent of the operating costs of one producer. There is evidence that legacy producers with less production per well pay materially higher property taxes per unit of production. The principle of property taxes being associated with the market value of the property is not supported by the current property tax mechanisms.*

The resulting recommendation about municipal taxes is not identified as short-term but instead as a medium-term solution. Under Recommendation 46: Implement Practical Government Oversight it states:

- Implement a three-year, phased-in-approach to establish market values for wells, flowlines, and gas production facilities; review associate mill rates for property tax purposes.

CONCLUSION

The report mainly focuses on broader issues related to market access and pipeline network capacity, both of which are beyond the control of municipalities. There is some limited indication in the report that many companies identify municipal taxes as large operating costs which compound the “big-picture problems”. This was referenced in the recent Government of Alberta news release regarding short-term property tax relief for shallow gas producers.