



Dave Mowat
Alberta's Royalty Review Panel
8th Floor, North Petroleum Plaza
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Dear Mr. Mowat;

The Canadian Energy Pipeline Association (CEPA) is pleased to provide the Royalty Review Panel with recommendations on optimizing Alberta's royalty framework. CEPA represents companies that operate 117,000 kilometres of transmission pipeline in Canada. Our members transport 97 per cent of Canada's daily natural gas and onshore crude oil production from producing regions to markets throughout Canada and the US in a manner that emphasizes safety, pipeline integrity, and social and environmental stewardship. Although our members do not directly pay royalties, the health of the pipeline sector is dependent upon the health of the upstream sector. Therefore, the royalty review is an issue that affects our members.

The energy industry's contributions to Alberta's economy are made possible by the existence of efficient pipeline infrastructure. As a whole, the industry brings economic value to Alberta through direct and indirect employment, community investments, government revenues and investments in technology and innovation. The oil and natural gas we transport also provides the fuels that heat our homes, drive our cars and power our industry. We encourage the Royalty Review panel to recognize the contributions that the energy industry, as a whole, provides to the well-being of our province and our communities. The Panel must also recognize that there are a number of factors that have created a challenging investment and operating climate for our industry, including a low price environment for the foreseeable future.

With this in mind, CEPA believes that the objectives of a royalty scheme should be to generate the maximum return to both government, as owner of the resource, and producers, as the agents that create the value in the resource. As such a royalty framework should strive to:

1. Maximize the total amount of rent (profit) that is available to government, acting on behalf of Albertans, and producers;
2. Be simple to understand and administer and have clear objectives; and
3. Be stable and predictable through periods of price volatility.

With these goals in mind, below, are our recommendations on how Alberta could achieve an effective royalty framework.



Recommendation 1: Alberta's royalty review should focus on the appropriate sharing between the owner of the resource and the producers responsible for creating the value in the resource without placing any undue financial burden on the industry.

As owners of the resource, Albertans are entitled to receive a fair share of the economic rents from natural resource extraction. Producers, who provide the capital, knowledge, expertise and ingenuity to extract the resource, must also earn their share. Alberta's royalty system must recognize the upstream sector's contribution to creating value from the resource.

Careful consideration must also be taken when distributing economic rents and this distribution must take into account fluctuations in price. CEPA is encouraged by the panel's commitment to consider economic upturns and downturns in their review. It is critical that no undue burden is placed on the industry in times of financial hardship so the industry is able to attract the investments required to apply their knowledge and expertise.

This is especially important in Alberta where higher transportation costs, based on the long distance between Alberta and major markets, have put Canada's crude oil at a significant disadvantage, which may be compounded during periods of low global oil prices. Currently, Western Canadian Select is being sold at a discount of about \$6.00 per barrel compared to the Mexican Maya (crudes that have similar characteristics). Although Alberta's oil has remained economically viable during peak oil prices, the discount has a greater impact as prices drop. Production in regions that have efficient access to global markets will remain viable at lower prices compared to Canadian production.

Alberta's energy industry is competing against jurisdictions from around the globe and in order to improve our competitive standing, safe, reliable and efficient access to global markets is critical. The approval and construction of transmission pipelines would help bring transportation costs down and close the gap in oil prices and can provide benefits across the province and throughout Canada.

Recommendation 2: Alberta's royalty review should have clear and achievable objectives and should not be used to promote other government policies objectives.

CEPA supports the stated objectives of the royalty review panel's mandate to establish a strong understanding of the energy sector and to find opportunities within a royalty framework to optimize the return to Albertans and support continued industry investment. However, the royalty system should not be used to promote other government policy objectives, such as economic diversification, environmental responsibility or value-added processing in Alberta. Incorporating these objectives into a new royalty system would result in market distortions and a lack of transparency in the royalty system. If the government wishes to pursue these objectives, it should do so through the use of other tools at its disposal.



Recommendation 3: Alberta's royalty system should be transparent and simple to understand.

It is possible for Alberta's royalty structure to maintain fiscal competitiveness, and ensure industry and Albertans receive a fair share of the economic rents from extracting our natural resources. This will require the credible, transparent and effective policy development by the government. It is critical Albertans are offered the opportunity to improve their understanding of what the goals of Alberta's royalty structure are, how they benefit and a reassurance their interests are being effectively protected and promoted.

Recommendation 4: Alberta's royalty system should encourage ongoing research, development and innovation in the natural resources industry.

Advancing technology and science has enabled Alberta's natural resource industry to become more competitive, resulting in increased government revenues and economic opportunities for Alberta. Alberta has a long history of success and excellence, including the enabling investments in oil sands through the Alberta Oil Sands Technology and Research Authority. Alberta is extremely well placed to continue its leadership and to be the national hub of advancing technology and innovation in the energy industry.

Due to the importance of technology and innovation to the industry and the economic wellbeing of the province, it is important that the royalty framework does not discourage research and development and investment in improved ways of extracting our resources. To this end, we urge the government to allow companies to deduct all reasonable investments before the royalty is calculated.

Conclusion

Oil and natural gas are essential components of current and future economic prosperity for Alberta. Pipeline companies, like the broader oil and gas industry, invest locally through employment, taxes and the purchase of goods and services. In 2014, CEPA members directly employed 11,600 full-time equivalent positions in Alberta and paid over \$350 million in corporate and property taxes. Our members also invested \$17 million in communities across the province. These benefits are only realized when producers, and the broader energy industry, are able to remain competitive in a global marketplace.

We strongly believe that any changes in the direction of government policy must recognize the economic and social benefits the industry brings to our province and country and must ensure Alberta's energy industry remains competitive in the global market. This will require a clear policy direction that charts a sustainable growth path that maximizes the benefits of resource development while minimizing the risks, strengthens our competitive standing globally, and makes Alberta a beacon for investment. This government direction must be transparent, fair and focused and should encourage ongoing investment and trade opportunities for Alberta's energy industry.



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We look forward to working closely with the Alberta government and stakeholders as you move forward with the royalty review. Should you have any questions, please do not hesitate to contact the undersigned.

Yours sincerely,

Dr. Brenda Kenny, PhD, PEng
President and CEO