Canada: Big Projects Update

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Outline

• Significant changes to the policy context for oil and gas industry
• Project Update & Outlook
Federal Government: Historic Political Come-back (October 19th)

Promises re. Energy/Environment: “will price carbon” (w/ Provinces)

- Fiscal: End F.F. tax credits (Accelerated Capital Cost Credit and Exploration Expense Credit on unsuccessful wells) 100% → 30%; Green Renovation tax credit; Renewable Power Production Incentive

- Regulatory: Liberal Government position on pipelines ‘neutral’—opposes Northern Gateway PL & will formalize moratorium on crude oil tankers north coast of BC;

- Rely on independent regulators’ but committed to reviewing recent changes to NEB process, improving EA process, require consideration of climate change and greater involvement of Aboriginal communities.
Historic Political Shift in Alberta – (May 7, 2015)

- After 42 years of Conservative government, New Democratic Party elected under Premier Rachel Notley
- She promised to:
  - **Increase Corporate Income Tax from 10% to 12%**
  - Move away from flat 10% personal income tax to progressive tax brackets above $125k
  - Increase Minimum Wage to $15/hr by 2018
  - Ban corporate & union donations to political parties
  - **Change Alberta’s Climate policies**
  - **Review Royalties**
  - Diversify the Economy (away from Oil & Gas)
  - Review province’s capital needs
  - Cancel funding of CCS projects
Climate Change Policies Announced

267 Mt GHG CO$_2$e

An Oil Sands Challenge

(Projected emissions before recent policies)

Source: Government of Alberta based on Environment Canada data
Alberta Climate Policies

1. Economy-wide carbon tax: $20/t in 2017, $30/t in 2018; possible increases @ CPI+2%/y*

2. Electricity: a) Phase out all coal by 2030; replace 2/3s with renewables, 1/3 capacity by gas such that 30% of electricity generated from renewables, b) 2018, $30/t for emissions > AB’s cleanest gas-powered plant generating equivalent power

3. Cap on emissions from oil sands = 100 Mt (vs ~70 Mt today)

4. 45% reduction of CH$_4$ emissions by 2025
   • Renewables support & Province-wide energy efficiency program
   • Provinces & Ottawa to meet 90 days after COP 21

* Depending on cost of carbon in competing jurisdictions
Alberta Climate Policies: Issues & initial thoughts

**Aim:** Alberta emissions ~ at 2013 level by 2030

- Carbon Tax NOT Revenue Neutral (money spent on renewables, efficiency & technology); some rebates for low/medium income
- Large emitters (>100 kt) to get emissions permits; top quartile performers pay no tax (start 2018)
- Uncertain if performance based on Company, Technology, Project or Phase? Uncertain if stringency increases post 2018?
- Oil Sands Cap → Room for Cogen, new Upgrading & efficiency gains in current projects, ~ 10 Mt each.
- Distributors of fuel are the ‘tax collectors’
- CH$_4$ reductions to align with EPA; tax to apply to conventional oil and gas site-use & flaring in 2023
W Canada Conventional Light and Medium
W Canada Conventional Heavy
'PENTANES/CONDENSATE
Mining TOTAL
In Situ TOTAL
EASTERN CANADA OIL PRODUCTION

CAPP 2014 Forecast
CAPP 2015 Forecast
Projected

Source: CAPP Crude Oil Forecast June 2015; 2014
Most projects under construction to be completed; so, little change in forecast for 2020.

Source: CAPP Crude Oil Forecast June 2015; 2014
Projected Oil Sands CO₂ Emissions

- In Situ TOTAL
- Mining TOTAL
- CO₂ Emissions

~70 Mt CO₂

Hypothetical CO₂ Emissions

- Cogen
- Efficiency gains
- Upgrading

A Risked Forecast

Risked Forecast Production ~ 800 kb/d (2020)

‘Gang of Four’* Share 31%

‘Gang of Four’* Share 72%

* CNRL, Suncor, Shell, Cenovus: operate ~ 50% of 2015 oil sands capacity

Peter Foster http://business.financialpost.com/fp-comment/peter-foster-the-gang-of-four-oil-cap-blunder; Risked production estimates, R. Skinner
Pipelines

• Line 9 ‘re-reversal’; currently starting up

• Trans Mountain Kinder Morgan to Burnaby B.C. (NEB review adjusted after procedural challenges, the ‘Kelly Affair’, Burnaby politicians oppose but election voted for ‘balance’ and court deferred to NEB and assigned costs to Burnaby)

• Northern Gateway; approved, 200+ conditions, court challenge by Aboriginals; probably ‘Dead’ (Trudeau does not support)

• Energy East, Hearings to start next fall; FNs lining up

• Keystone XL (Dead or just in deep sleep?)

• Enbridge Line 3 Pipe replacement, review underway

• ‘Work-around’ with rail and expansions to existing pipe
Carbon Atoms in Oil Sands are the Worst!

The carbon in this molecule are ‘special’: They imperil the Earth more than others.
West coast LNG Projects

- 20 Projects Proposed, > 40 Bcf/d
- 13 with NEB export license approvals (27 Bcf/d)
- At least 6 significant pipeline projects
- B.C. government gung ho.
- Petronas project (2 Bcf/d) made “conditional FID” (June 2015)
  - Federal Environmental Review,
  - Provincial Approvals,
  - FN’s concerns)

For Update & Recent Analysis, refer to:
- http://engage.gov.bc.ca/lnginbc/lng-projects/
SUMMARY

Canadian Oil & Gas sector under major stress
• Low prices (thankfully a US$0.74 Loonie!)
• Some of the highest cost O&G in the world
• Details of Alberta Climate Policy & Royalties unknown

The most critical issue for Canada’s O&G Industry is Market Diversification & Access to Tide Water → A ‘deal’ with the NGOs: ‘100 Mt cap for access to markets’?

Financing of oil and gas a challenge, especially small companies
Thank You