

# CAPP Perspectives on Linear Assessment

## Presentation to the AUMA Linear Symposium

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CANADIAN ASSOCIATION  
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# About CAPP and Canada's Oil and Gas Industry

- **Large and small producer companies and associate members**
- **Represent 90% of Canada's natural gas and crude production**
- **Largest private sector investor in Canada (\$48 billion estimated in 2015)**
- **Annual government revenues average \$17 billion**
- **Employ approx. 450,000 in Canada (direct & indirect)**
- **Canada is the 5<sup>th</sup> largest producer of natural gas globally**
- **Canada is the 5<sup>th</sup> largest producer of crude oil globally**

# Economic Context

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# Industry Contribution to Alberta Economy:

## BENEFITS TO ALBERTANS

**THE OIL AND  
NATURAL GAS INDUSTRY  
IS A SIGNIFICANT  
CONTRIBUTOR TO THE  
ALBERTA ECONOMY**



**\$10.7 BILLION**

IN ROYALTIES, LAND SALES, CORPORATE  
AND MUNICIPAL TAX AND CARBON LEVY



**20,000**

ALBERTA COMPANIES HAVE DIRECT  
BUSINESS WITH THE OIL AND NATURAL  
GAS INDUSTRY



**375,000**

DIRECT AND INDIRECT OIL AND NATURAL  
GAS JOBS ACROSS ALBERTA

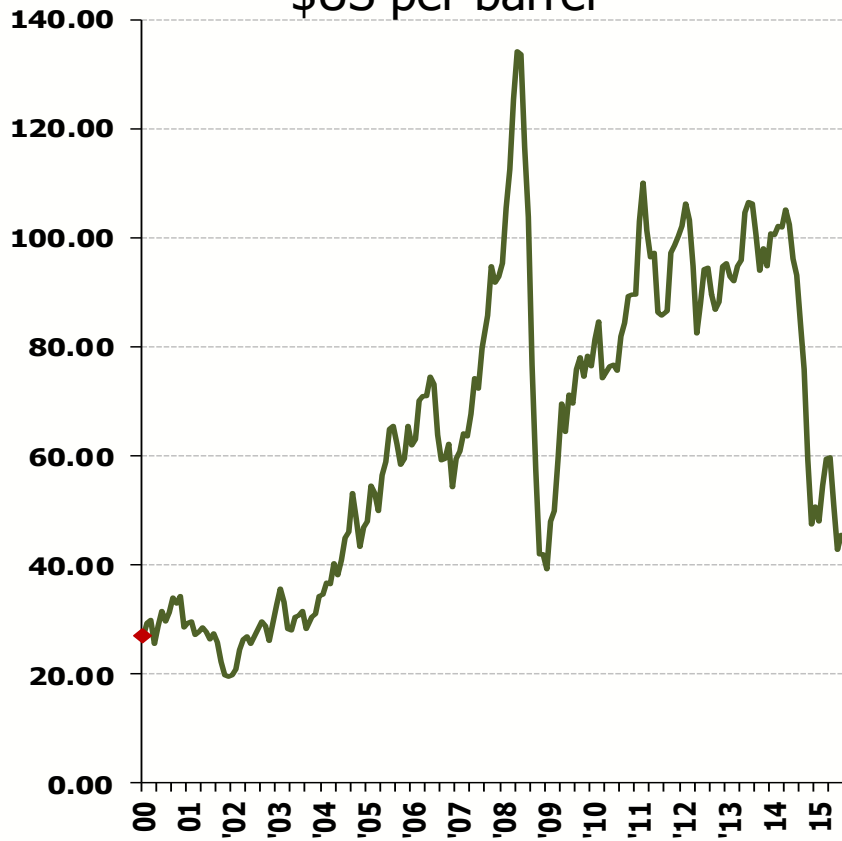


*Source: Statistics Canada & CAPP 2015*

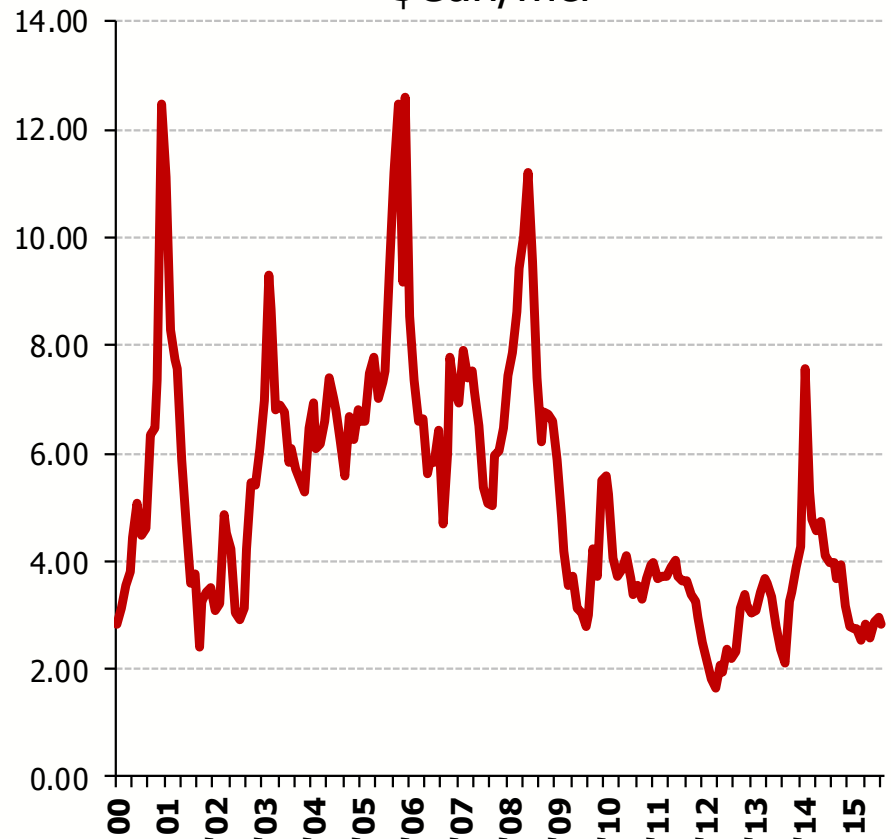
- **Contributed 28% of provincial GDP in 2015 and one in 5 jobs**
- **Down from 40% of provincial GDP in 2014 and one in 4 jobs**

# Prices have declined substantially since 2014

Crude Oil Prices  
(WTI NYMEX)  
\$US per barrel

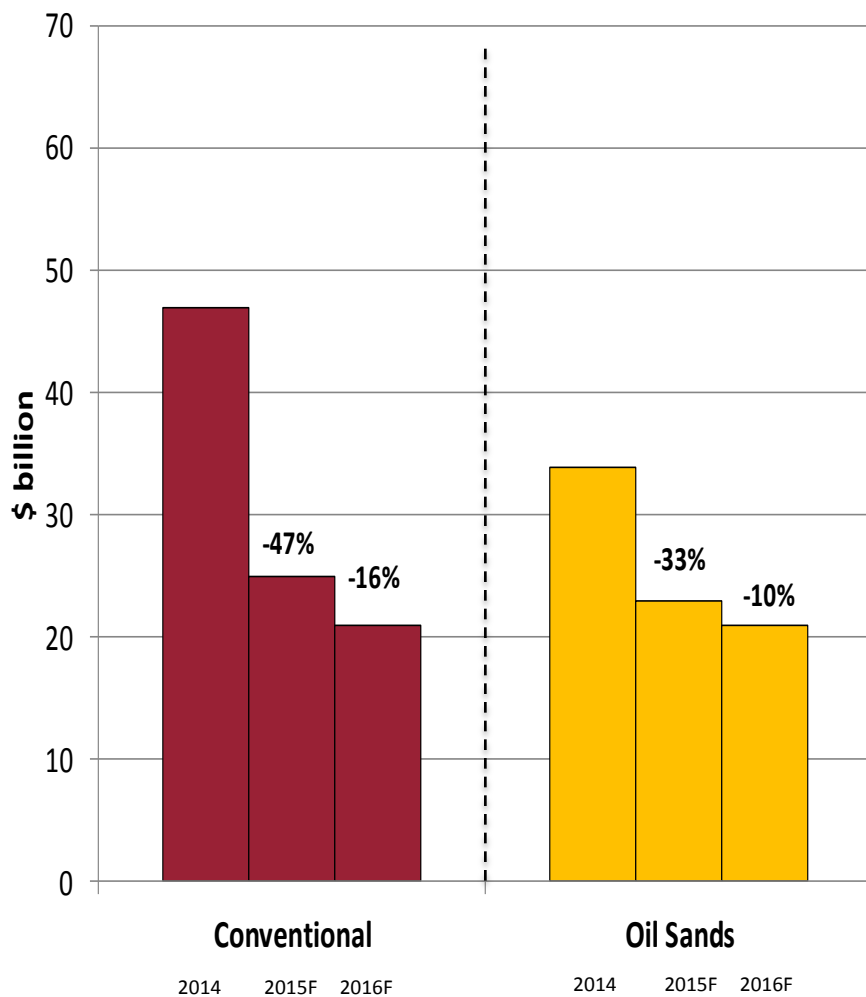


Natural Gas Prices  
(AECO Daily Spot Price)  
\$Cdn/mcf

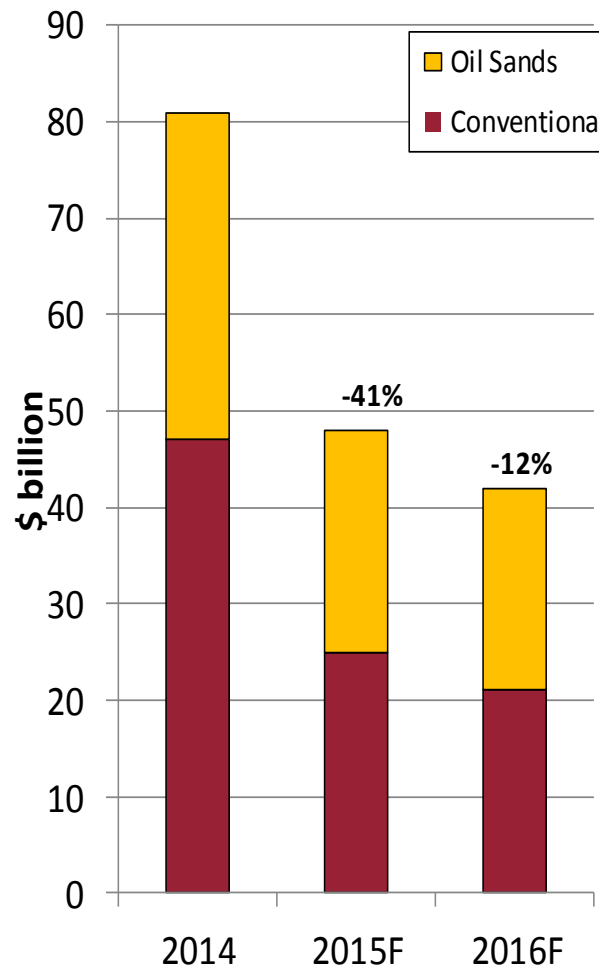


# Investment has declined by 48 per cent since 2014

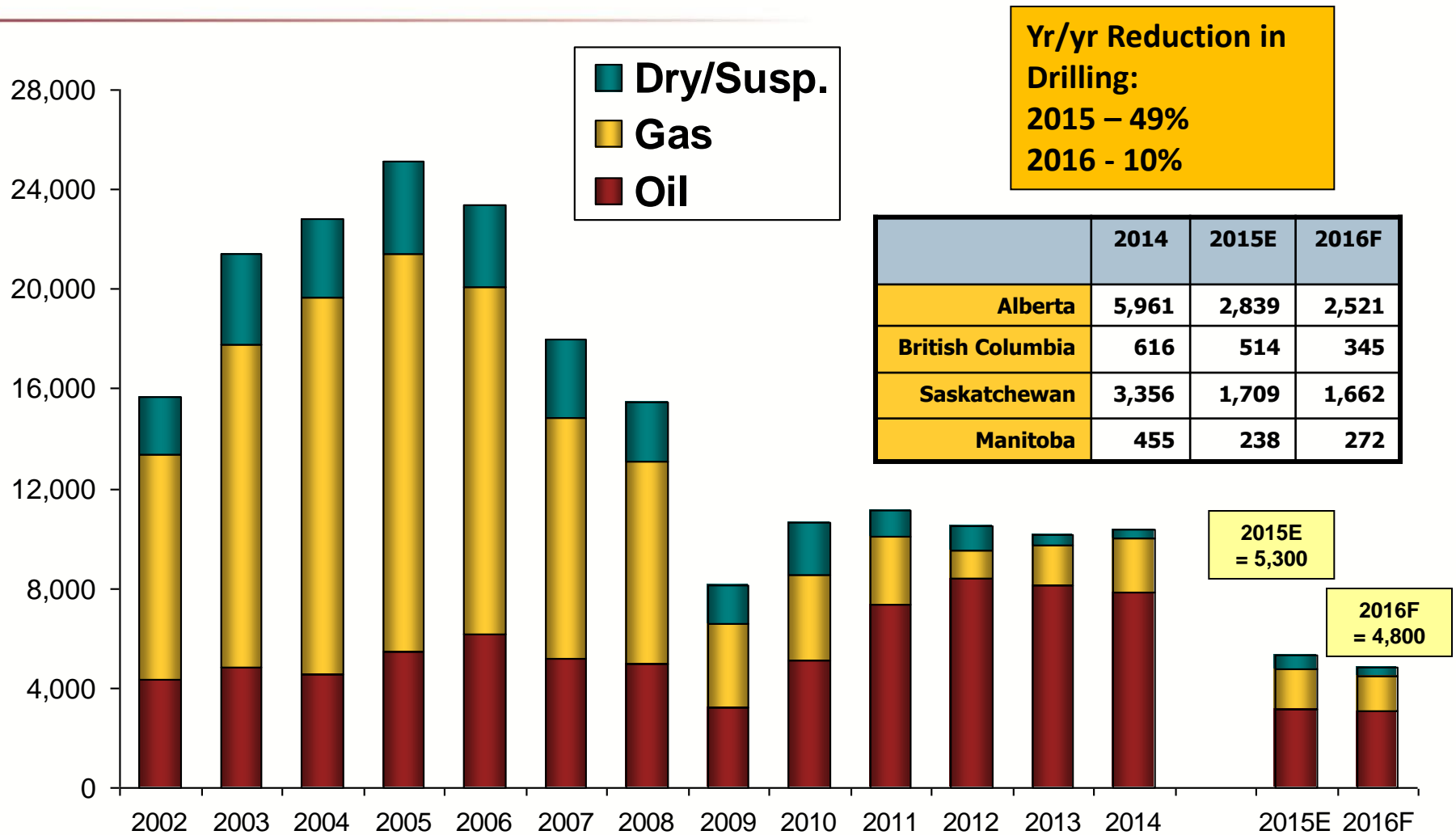
% = Year/year change



## Combined Capital Investment



# Declining Investment is Reflected in Declining Wells Drilled



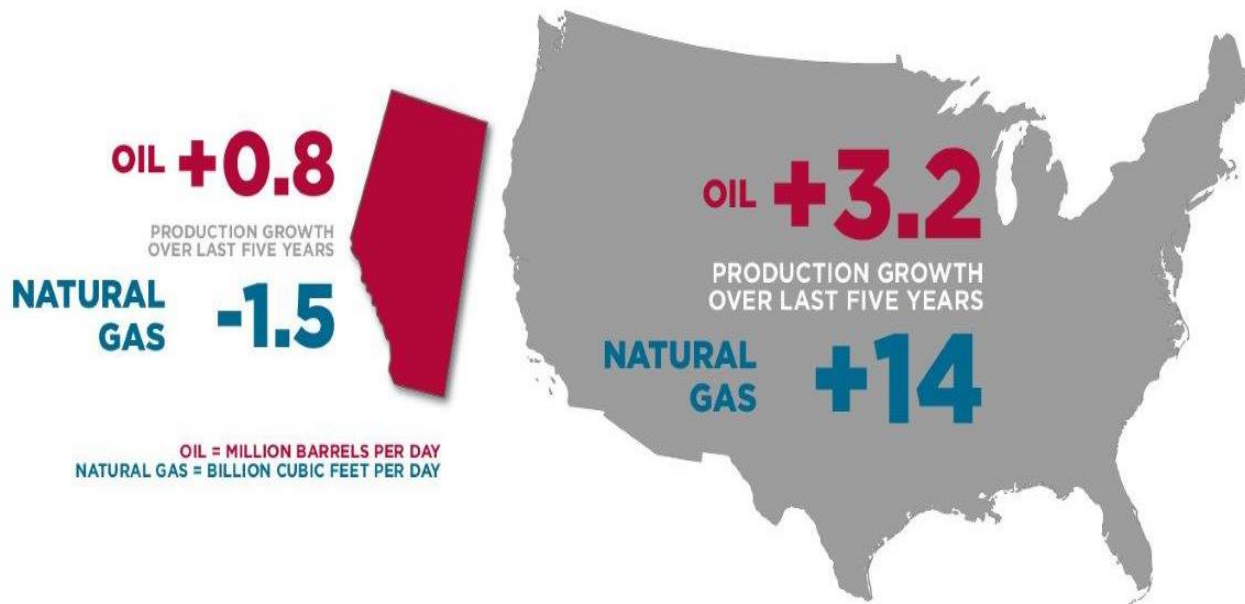
Source – CAPP. Based on Rig Release

E=estimate; F=forecast



# Economic Context: Our biggest client is our biggest competitor

## COMPETING WITH OUR BIGGEST CUSTOMER



The U.S. is now the fastest growing oil producer in the world. Considering this significant change in the oil and gas market, the royalty regime must be competitive to keep the industry generating jobs and government revenues for Albertans.

SOURCE: CAPP and U.S. Department of Energy

# Challenging Policy Environment

## Alberta Government Policy Impacts

Policy	Impact
20% corporate income tax rate increase	<ul style="list-style-type: none"> <li>• \$185 million annual increase to oil and gas</li> <li>• Balance sheet impairments \$2.6 billion (financial capacity)</li> </ul>
Specified Gas Emitters Regulation (June 2015)	<ul style="list-style-type: none"> <li>• \$600 million over two years</li> </ul>
Climate Leadership Plan <ul style="list-style-type: none"> <li>• \$30 tonne economy-wide carbon price</li> <li>• Oil sands 100 MT emissions limit</li> <li>• New large emitter performance standard</li> <li>• Methane reduction requirements</li> </ul>	<ul style="list-style-type: none"> <li>• \$3 billion economy-wide revenues</li> <li>• Potential reduced asset valuations</li> <li>• More stringent performance standard</li> <li>• Incremental regulatory and retrofit cost</li> </ul>
Property taxes in rural and specialized municipalities with oil and gas	<ul style="list-style-type: none"> <li>• \$60 million annual tax increase</li> <li>• \$1.1 billion total taxes paid in 2014</li> </ul>
Royalty review	<ul style="list-style-type: none"> <li>• Forthcoming and potentially significant</li> </ul>

# Alberta Economy Worsening Across Many Indicators

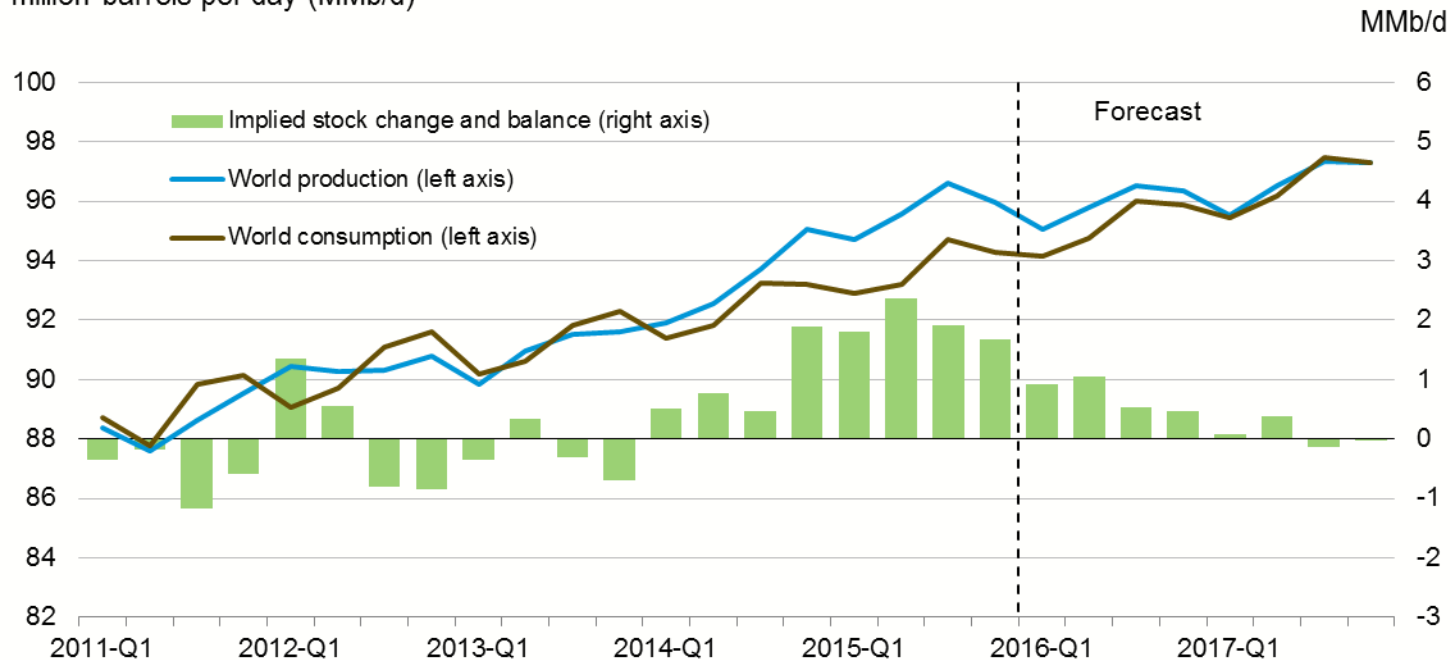
Indicator	Value in 2015	2014-15 Change	2014-15 % Change
Employment	2,285,600	-6,200	-0.3%
Unemployment Rate	7.00%	2.60%	2.6%
EI Claimants	49,080	24,590	100%
Retail sales	\$6,528,540,000	-\$361,048,000	-5.2%
Motor vehicle sales	\$1,600,849,000	-\$139,714,000	-8.0%
Average housing price	\$385,430	-\$20,713	-5.1%
Housing sales	13,870	-3,708	-21.1%
Housing starts	23,532	-12,312	-34.4%
Wholesale sales	\$6,782,989,000	-\$1,142,695,000	-14.4%

# Economic Context: Oil Glut to Continue Through 2017

- **US Energy Information Administration anticipates production to exceed consumption till 2<sup>nd</sup> half of 2017.**

**World Liquid Fuels Production and Consumption Balance**

million barrels per day (MMb/d)

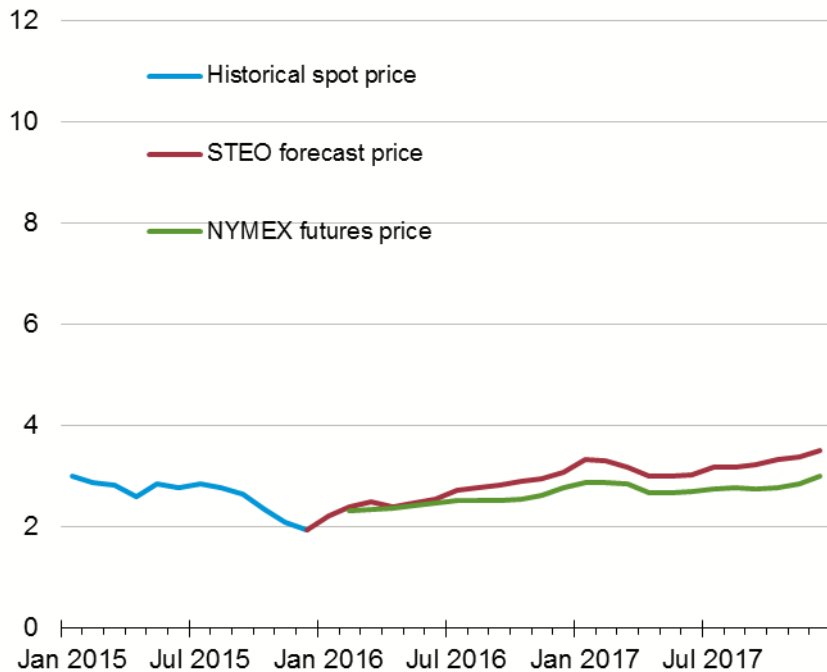


Source: Short-Term Energy Outlook, January 2016.

# Economic Context: Prices Not Anticipated to Recover Quickly

## Henry Hub Natural Gas Price

US dollars per million Btu

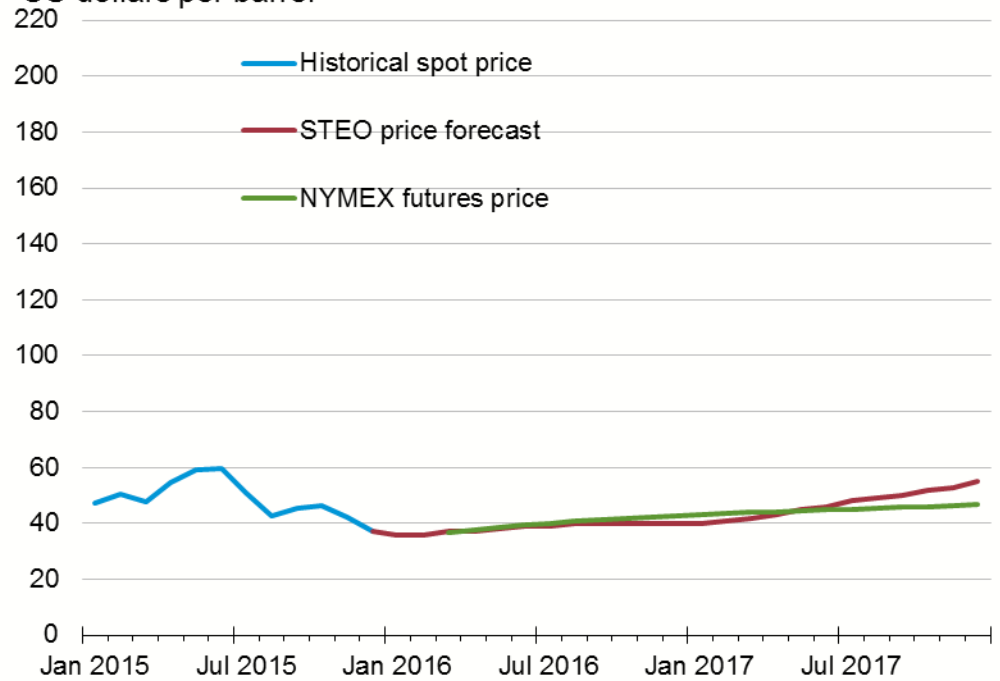


Source: Short-Term Energy Outlook, January 2016.



## West Texas Intermediate (WTI) Crude Oil Price

US dollars per barrel



Source: Short-Term Energy Outlook, January 2016.



# CAPP Municipal Policy Perspectives

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# CAPP Municipal Competitiveness Strategy

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- **Founded on government commitment to review Alberta fiscal regime as part of 2010 competitiveness review**
- **Developed municipal webtool based on provincially published data**
- **Engaging municipal stakeholders in building relationships and support on key priorities**
- **Participating in *Municipal Government Act* Review process**

# Oil & Gas a Significant Contributor to Linear Property Assessment in Alberta

Distribution of Alberta Linear Assessment				
	2014 Tax Year (\$mm)	2015 Tax Year (\$mm)	2014 Share of Linear Assessment	2015 Share of Linear Assessment
Wells	\$28,580	\$30,088	38.20%	38.46%
Pipeline-upstream (estimate)	\$18,246	\$18,756	24.39%	23.98%
<b>Upstream Estimate*</b>	<b>\$46,826</b>	<b>\$48,844</b>	<b>62.59%</b>	<b>62.44%</b>
<b>Pipeline-midstream (estimate)</b>	<b>\$13,765</b>	<b>\$14,149</b>	<b>18.40%</b>	<b>18.09%</b>
Electric Power Systems	\$6,045	\$6,716	8.08%	8.59%
Electric Power Generation	\$5,960	\$6,271	7.97%	8.02%
Telecommunications Systems	\$1,881	\$1,908	2.51%	2.44%
Cable Distribution Systems	\$336	\$337	0.45%	0.43%
<b>Total</b>	<b>\$74,813</b>	<b>\$78,225</b>	<b>100.00%</b>	<b>100.00%</b>

\*This is only linear assessment, does not capture any M&E, land, or other non-residential building and structures associated with the linear assessment, nor does it count head office non-residential assessment.



# CAPP Perspectives on Linear Assessment

- **CAPP supports a municipal governance framework based on the following principles:**
  - Equity in the distribution of costs and benefits
  - Accountability to constituents and ratepayers
  - Necessity and Efficiency in service provision and delivery
  - Enhancing economic competitiveness
- **The discussion of the distribution of the linear assessment base is, in essence, about the equitable distribution of costs and benefits within municipal regions**

# CAPP Perspectives on Linear Assessment

- Rather than focusing on the distribution of the linear assessment base within municipalities, **CAPP recommends:**
  - Establish equitable cost sharing arrangements among municipalities in situations where costs and assessment bases do not align,
  - Engage all appropriate urban and rural municipalities in the planning of these services,
  - Not increase the overall tax burden to industry
- We further recommend supporting municipal benchmarking initiatives to identify and implement program efficiencies to financially position municipalities more sustainably over the long-term.

# Discussion

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