

Alberta's Energy Sector: Public Policy Challenges and Priorities

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Introduction: New West Opportunities

- ▶ Shane Pospisil, Senior Partner, Western Canada
- ▶ 36 Partners and Associates
- ▶ Offices in Edmonton, Calgary, Fort McMurray, Vancouver, Saskatoon and Seattle
 - ❑ Business Strategy
 - ❑ Project Development, Implementation and Execution
 - ❑ Community Development
 - ❑ First Nations Capacity-Building
 - ❑ Strategic Communications and Branding



Rules of Engagement

- ▶ Most public policy issues are rarely either “black or white.” They often exhibit multiple shades of grey – with many competing elements of the broader public interest at play.
- ▶ As future practitioners of public policy, this is an opportunity for you to engage in a discussion related to Alberta’s energy sector, development of the Alberta oil sands, and the future of hydrocarbon production and consumption in a carbon-constrained world.
- ▶ We’ll have our own public policy discussion, hopefully one that goes beyond the usual 30-second sound bites, and that focuses on the potential trade-offs and various interests at play.
- ▶ Respect for the views and values of others, and recognizing their potential biases on a particular public policy issue, is always important...but informed facts-based decisions and opinions are always best. What are my biases? What are yours?



Diverse Range of Public Policy Perspectives

- ▶ Economic, environmental, social, cultural, political...the “public” is ultimately (or, at least, should be) paramount in “public policy” formulation and implementation.
- ▶ Jobs, investment, economic growth, trade, exports...many feel this is the bottom line.
- ▶ Energy/national security?
- ▶ Fuel switching opportunities (coal and liquid fuels to natural gas)? Both within Canada and North America?
- ▶ Growing awareness of the need to address global warming/climate change.
- ▶ Federal, First Nations/Métis, provincial, regional/municipal, international (bilateral/multilateral), industry, ENGOs, etc. and the new kid on the block...First Nations “consultations” and “accommodation” obligations.
- ▶ ENGOs...a principled, facts-based stand against oil sands development? Or not?



Diverse Range of Public Policy Perspectives



Diverse Range of Public Policy Perspectives



Diverse Range of Public Policy Perspectives



Diverse Range of Public Policy Perspectives



When you think of Alberta's energy sector, what comes to mind?

- ▶ Oil and gas?
- ▶ Depleting light/medium crude and conventional gas reserves?
- ▶ Increasing non-conventional (heavy crudes, bitumen) and gas (coal-bed methane, shale gas, tight gas) development?
- ▶ Oil sands or “tar sands”?
- ▶ Clean energy production or “dirty oil”?
- ▶ Coal-fired electricity generation?



When you think of Alberta's energy sector, what comes to mind?

- ▶ Climate change?
- ▶ Greenhouse gas (GHG) emissions?
- ▶ Energy technology leader?
- ▶ Environmental Performance and Leadership: Increasing criticism and scrutiny from international ENGOs?
- ▶ A leader in renewable energy?
- ▶ An environmental business sector hub and centre for clean energy innovation?

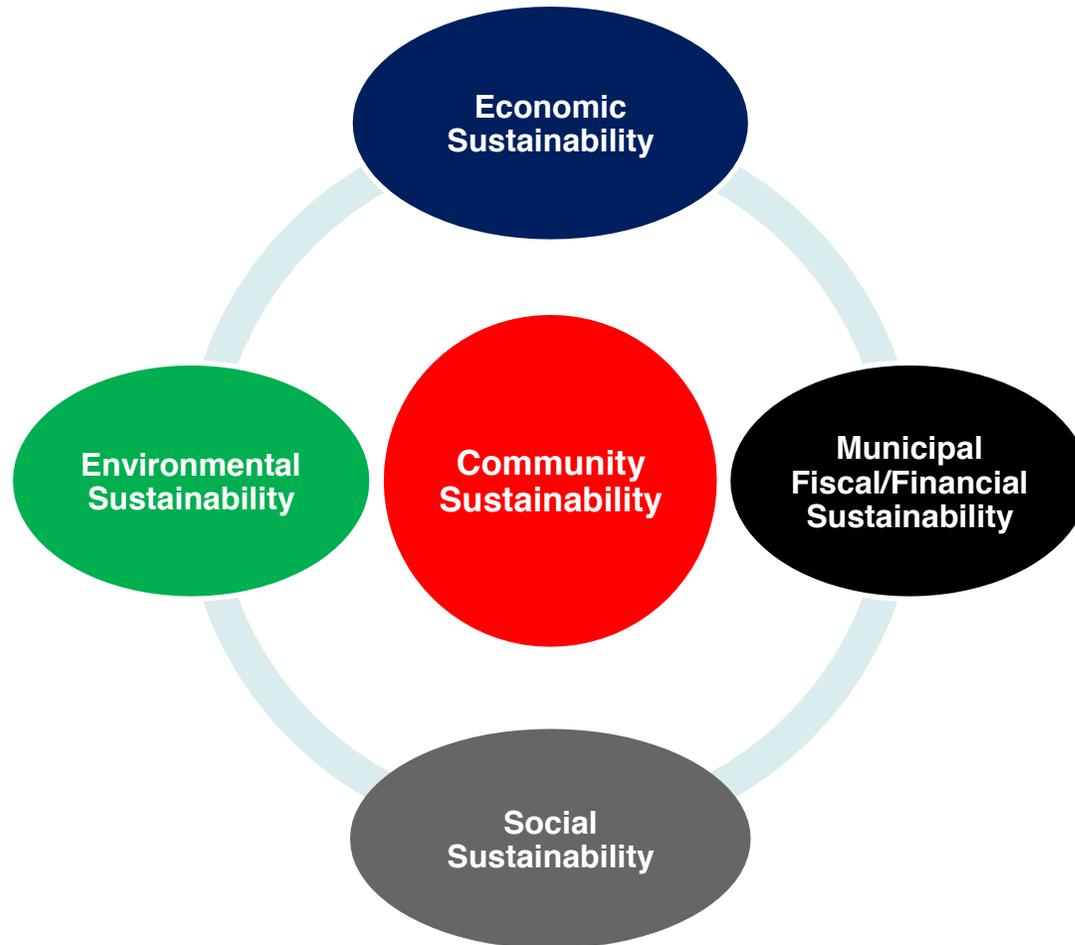


Perceptions: Leader or Laggard

- ▶ Where are the current and future opportunities?
- ▶ What needs to be done to realize these opportunities?
- ▶ Where are the risks and challenges?
- ▶ What actions/responses are required?
- ▶ What is the appropriate public policy response(s)? Alberta? Canada? Internationally?
- ▶ The Poster Child for Global Warming? A Clean Energy Superpower?
- ▶ Always a danger that perception becomes reality.
- ▶ Myths and misinformation must be confronted by the facts and by messengers perceived as being “credible”.



Community Sustainability Paradigm



Economic Game Changer: Non-Conventional Oil

- ▶ In Alberta, crude bitumen production now exceeds conventional crude oil production and is considered an integral part of the world's oil reserves.
- ▶ Total oil sands production is estimated to be running close to 1.9 million barrels per day (bpd), representing about two-thirds of Alberta's oil production and just over half of total Canadian oil production.
- ▶ The energy sector directly and indirectly is the single largest contributor to the province's GDP, income, employment and government revenues. It also generates more than two-thirds of Alberta's exports.
- ▶ New oil sands development is expected to contribute over \$2.1 trillion 2010 dollars to the Canadian economy over the next 25 years...about \$84 billion per year, with significant federal and other non-Alberta tax revenues and related transfer payments benefiting all regions of the country.



Economic Game Changer: Non-Conventional Oil

- ▶ Alberta's three major oil sands deposits include:
 - ❑ **Athabasca Deposit** (236 billion cubic meters of initial in-place volumes of crude bitumen)
 - ❑ **Cold Lake Deposit** (29 billion cubic meters of initial in-place volumes of crude bitumen)
 - ❑ **Peace Region Deposit** (21.5 billion cubic meters of initial in-place volumes of crude bitumen)
- ▶ For the province as a whole, an estimated 170 billion barrels are currently deemed "recoverable."



Economic Game Changer: Non-Conventional Oil

- ▶ Alberta's oil sands have been built on a history of technological innovation and continuous improvement in both operational and environmental performance.
 - ❑ Improvements in technical efficiency and performance.
 - ❑ Reductions in environment impacts.
 - ❑ Improvements in overall environmental performance.
 - ❑ Reductions in operating cost profiles.
 - ❑ Increases in accessible, economically-viable reserves.



Economic Game Changer: Non-Conventional Oil

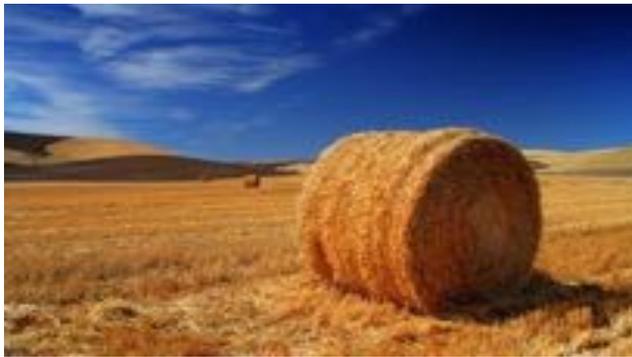
- ▶ Canada's oil production is forecast to continue to increase and total almost 6.7 million bpd by 2030, with Alberta's oil sands accounting for 5.2 million bpd and the rest coming mostly from other Western Canadian conventional and tight oil production.
- ▶ These are significant developments – for Alberta and for oil and gas-dependent communities across Alberta . As development activity ramps up, so too will the need for infrastructure, a well-developed service and supply chain, host communities, and a regional workforce that is both adaptable and has the required skills to fill and staff available and emerging opportunities.
- ▶ Public Policy Response(s): Proactive? Reactive? What is the recent track record and should we take comfort from this? Where do we need to improve and do better?



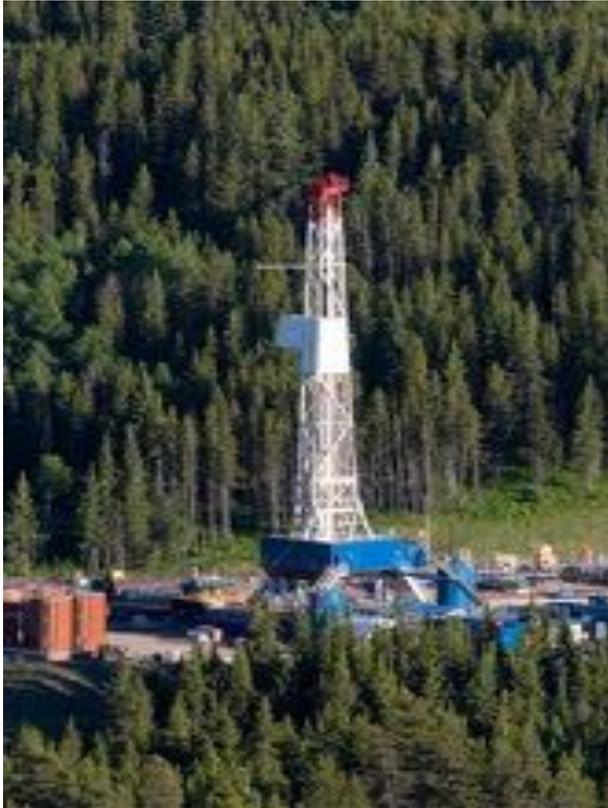
Public Policy Discussion: What's trending?



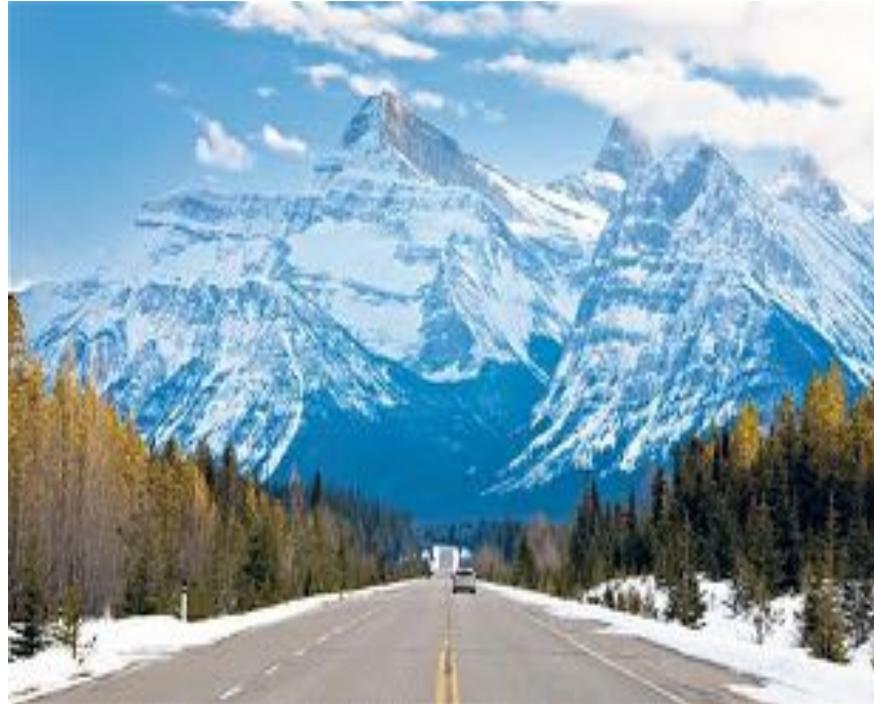
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Public Policy Discussion: What's trending?



Public Policy Challenges and Priorities: What are Albertans saying?

- ▶ Mitigate Environmental Impacts and Environmental Footprint
- ▶ Focus on “Continuous Improvement” and “Best Practices” Environmental Leadership
- ▶ Myths and Misinformation Need to be Confronted and Corrected
- ▶ Develop Access to Tidewater and Brent (World) Pricing
- ▶ Continue to Leverage Technology and Innovation
- ▶ Focus on Industry Awareness, Education and Communications – Facts are Our Friends!
- ▶ Pursue More Value-Added – Jobs, Investment, Economic Growth and Improved Fiscal Capacity and Community Sustainability Across Rural Alberta



Public Policy Challenges and Priorities: What are Albertans saying?

- ▶ Further Strengthen Aboriginal Partnerships and Engagement
 - ❑ A growing consensus on the need to move beyond Section 35 of the Canadian Constitution Act, 1982.
 - ❑ Free, prior and informed consent now widely recognized and embraced.
 - ❑ The duty to consult and accommodate also represent essential “boxes to check,” with specific definitions still being developed and customized for various types of projects and locations within Alberta.



Case Study #1: Canadian Mat Systems and Victory Well Servicing (See Workbook)

▶ Four First Nations Joint Venture Partnerships:

- ❑ Woodland Cree First Nation
- ❑ Chipewyan Prairie Dene First Nation
- ❑ Sunchild First Nation
- ❑ Paul First Nation

▶ Jobs, Training, Careers, Mentoring

▶ Revenue-Sharing

▶ Community Capacity-Building

▶ A Key Market Differentiator ? Yes! Best Practices? Absolutely!



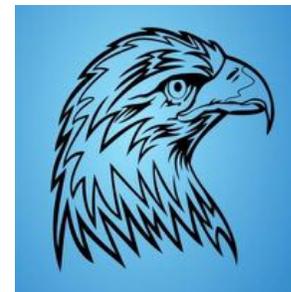
Case Study #2: Kinder Morgan Canada (See Workbook)

- ▶ \$5.4 Billion TransMountain Pipeline Capacity Expansion
 - ❑ Would triple existing capacity to 850,000 bpd.
- ▶ Mutual Benefit Agreement (MBA) and Contractor Development Strategies
- ▶ Various First Nations Partnerships in Alberta and British Columbia
- ▶ Challenges, Successes and a Highly-Respectful Commitment to Communities and First Nations Partnerships



Case Study #3: Great Spirit Power Project (See Workbook)

- ▶ \$1.5 Billion, 1,000 MW High-Efficiency Gas-Fired Electricity Generating Plant
 - ❑ The largest project yet proposed in Alberta and a response to the now federally-mandated phase-out of aging coal-fired generation in the province.
- ▶ Project to be Located On-Reserve
- ▶ Various First Nations Partners Included in Ironhead First Nations Partnership
- ▶ Host First Nation to have a Direct Carried Equity Ownership in the Project



Concluding Remarks and Roundtable Discussion

- ▶ The impact of hydraulic fracturing and horizontal drilling is fast-propelling North America towards energy self-sufficiency.
- ▶ In fact, the U.S. became a net exporter of refined petroleum products in 2011, the first time that occurred since 1949.
- ▶ Growth in U.S. light oil production, along with the Canadian oil sands, will represent a supply shock that, according to the International Energy Agency, will be “as transformative to the market over the next 5 years as was the rise of Chinese demand over the last 15 years.”
- ▶ Fuel-Switching Opportunities: Switching from oil to gas is estimated to cut oil demand in the U.S by about 1.8 million bpd by 2020, further contributing to a flatter demand profile for gasoline and other refined products...in addition to increased manufacturing competitiveness in a number of energy-intensive industries and sectors across North America.



Concluding Remarks and Roundtable Discussion

- ▶ Alberta's \$15 per tonne CO₂ levy on large industrial emitters likely to be increased in a final push to help persuade U.S. President Obama to approve the northern, cross-border segment of the Keystone XL Pipeline. Approval could (should) come in early-2015.
- ▶ The Northern Gateway and TransMountain Capacity Expansion Projects remain key Alberta economic priorities...with estimates indicating that recent price differentials for Western Canadian Select (WCS), relative to the tidewater Brent prices prevailing over the same period, represented an annual opportunity cost of about US\$18 billion.
- ▶ Alberta needs to expand West Coast deliverability and to diversity export markets
China, China, China!
- ▶ Oil-by-rail will continue to become a major alternative to pipelines in certain inland, pipeline-stranded North American jurisdictions, such as North Dakota's Bakken region.



Concluding Remarks and Roundtable Discussion

- ▶ With over \$200 billion in major capital projects in the queue, is the Alberta economy getting ready to overheat? Will we again see major project cost escalation and uncertainty?
- ▶ What about the current and projected shortages of skilled labour over the next decade? What's the plan for addressing these and other growth-limiting bottlenecks?
- ▶ In the past, the ongoing westward shift in the country's "economic centre of gravity" has sometimes resulted in increased interprovincial tensions and sensitivities.
 - ❑ What's the strategy for managing these potential tensions and conflict points in the future? Who will represent and speak for Alberta?
 - ❑ What's the plan in the event the next Ontario government fails to implement a fiscally- and financially-responsible, multi-year budget rebalancing strategy?
 - ❑ How does Alberta persuade Canadians that oil sands development can and does benefit all regions of the country?



THANK YOU!

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