Balance the Need to Reduce Methane Emissions While Protecting Jobs and Investment

ISSUE:

Investment and activity in the oil and gas industry are critical to the economic well-being of employees, businesses, communities and the province. The Government of Alberta has committed to reducing methane emissions from the oil and gas sector by 45 per cent by the year 2025. Methane emissions regulations should be implemented in a manner that protects jobs and investment.

BACKGROUND:

The Government of Alberta has committed to reduce methane emissions by 45 per cent. Companies in the oil and gas sector are not opposed to reducing methane emissions; but have communicated the need to implement those methane reductions in a way that ensures environmental stewardship without discouraging investment in our oil and gas industry.

The implementation of methane reductions has the potential to cost the oil and natural gas industry $5 billion in direct costs if done in a manner which does not ensure balance outcomes with job losses[1], the spin off costs to the broader economy have the potential to be much greater. Many Albertans rely on the oil and gas industry as the economic driver which fuels other businesses. "For every direct job created in the Canadian oil and gas sector, 2 indirect and 3 induced jobs in other sectors are created in Canada on average."[2] The oil and gas industry is a key component in Alberta in creating a robust economy, and maintaining and creating hundreds of thousands of high value jobs.

According to the Canadian Association of Petroleum Producers (CAPP), a prescriptive approach to Alberta's policy framework could "result in nearly 7,000 jobs lost, a drop in capital spending of almost $710 million, and a decrease to our gross domestic product of $2.5 billion."[3] 7,000 direct jobs in the oil and gas sector can result in 14,000 indirect and 21,000 induced jobs in other sectors that could be lost.

Investor confidence in Alberta has fallen. "Market volatility amid increasing regulatory uncertainty and growing cumulative cost burden is reducing investor confidence in, and the competitiveness, of Canada's upstream oil and natural gas industry. ... The current oil price environment has created substantial challenges for the Canadian upstream industry. Oil prices have declined over 70 per cent since 2014. In response, investment in the Canadian upstream industry has declined by 65 per cent since 2014. It is imperative to design cost-effective regulations that reduce methane emissions and safeguard the industry's competitiveness."[4]

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[1] *CAPP Comment on Regulations Respecting Reduction in the Release of Methane and Certain Volatile Organic Compounds.* Canadian Association of Petroleum Producers. July 26, 2017.

[2] Economic Impacts of Canadian Oil and Gas Supply in Canada and the US. (2017, August). Canadian Energy Research Institute. Retrieved from http://resources.ceri.ca/PDF/Pubs/Studies/Study_166_Executive_Summary.pdf

[3] Methane Plan Can Cut Emissions by 45%, Protect 7,000 jobs: CAPP. (2017, October 30). Retrieved from http://www.capp.ca/media/news-releases/methane-action-plan

[4] *CAPP Comment on Regulations Respecting Reduction in the Release of Methane and Certain Volatile Organic Compounds.* Canadian Association of Petroleum Producers. July 26, 2017.

The Canadian Association of Petroleum Producers (CAPP) has a plan to meet the government's target of cutting methane emissions by 45 per cent while protecting nearly 7,000 jobs in Alberta. To ensure the success of our economy, an approach laid out by CAPP should be taken that protects jobs, stimulates investment in our province and reaches the 45 per cent methane reduction target.

For Individual businesses to achieve the 45 per cent reduction while maintaining their workforce and productivity, methane reduction targets should pertain to their entire business model. If specific targets are applied to individual wells, projects, or sites, businesses will not be able to choose investments which will maximize reductions but will instead be required to make less effective reductions. As a result, significantly higher costs on ineffective projects and operations will result in the unnecessary shutdown of those projects. Moreover, by requiring reductions in specific projects, sites, and wells, it is likely reduction targets will be higher than those intended, placing unnecessary pressure on industry to move faster than is reasonably possible without cutbacks. Flexibility is key to ensuring that businesses are able to incorporate new technology, methodology, and innovations, applied to strategic and targeted segments of their business model to achieve a balanced outcome which effectively meets the 45 per cent reduction goals while preserving jobs and protecting investment.

In addition to flexibilities in the regulatory requirements for all producers, specific consideration should be provided for small businesses who are limited in their ability to meet the required reductions on older wells and systems. Alberta's producers come in a number of sizes and while achieving these goals across the sector is a stated goal for the Province, many smaller producers whose assets include a high proportion of older, grandfathered, or low-producing wells may face higher than average costs to upgrade or retrofit older equipment to achieve the required methane reductions. These businesses will be impacted relatively greater than larger producers and face a greater risk closing down if regulatory requirements fail to consider their specific situations.

RECOMMENDATION:

the Alberta Chamber of Commerce recommends that the Government of Alberta:

(1) Avoid a prescriptive regulatory process that overshoots the 45% reduction target
(2) Apply reduction targets to businesses as a whole rather than to specific sites, projects, or wells
(3) Allow industry to follow a path that meets the 45% reduction target at the lowest possible cost
(4) Continue to work with industry and industry groups to determine a cost-efficient, risk-based, competitive model which balances methane-reductions with the maintenance of jobs and investment
(5) Include considerations in the regulations for small business who are limited in their ability to meet regulatory requirements for methane reduction to ensure they are not forced to scale back or close their operations.