



AGENDA ITEM

Enhance Energy Inc. Tax Request

June 4, 2020

BACKGROUND

At the May 14, 2020 regular meeting of Council, representatives of Enhance Energy Inc. made a presentation to Council seeking financial and infrastructure upgrading concessions from the County over next several years. Their request is relative to the future development of its Clive CO₂ Enhance Oil Recovery Project.

The Clive CO₂ Enhance Oil Recovery Project is part of the Alberta Carbon Trunk line Project which aims to capture carbon from facilities in the Industrial Heartland; transport and store it; with a final use including oil recovery in the mature oil fields near Clive.

The project has an estimated cost of \$1.2 billion and involves funding from the private sector and the provincial and federal governments. The project became operational on June 2, 2020.

The rapid decline in oil prices since the beginning of 2020 has resulted in Enhance Energy's operating revenue dropping below operating costs. Due to this projected decline in revenue, Enhance Energy has been working to lower operating costs.

The proposal put forward to Council sought a waiver on taxes and costs related to future development. Council has directed Administration to review the request and provide a recommendation.

ANALYSIS

Enhance Energy is unique from other energy companies in that it will use recaptured carbon dioxide from industrial processes to recapture oil from mature oilfields. This technology is new and is intended to reduce man-made carbon dioxide emissions. As a result, the operating cost for this company will be inherently higher than other oil production activities.

The company is seeking to reduce its costs. It has asked for the following waivers/reductions from the County:

1. Five-year waiver on the County's well drilling tax levy;
2. Removal of the obligation to pave approaches; and

3. Three-year property tax holiday on new assessments related to CO₂ developments

Each of these requests has a different impact to the County.

1. Well Drilling Tax Waiver

The County's well drilling tax is levied in accordance with the County's bylaw and provincial legislation. The levy is a one-time charge for each well drilled and is a per metre charge. The rate is determined annually by the Province and the decision to implement the levy is made County Council. There are no mechanisms to exempt individual companies other than to use Council's authority to cancel the tax by resolution. Based on 2019 drilling, the Company incurred an average of \$10,000 in drilling tax per well. Depending on depth, Enhance Energy's proposed 10 well drilling program would average between \$100,000 and \$132,000 in well drilling taxes in 2020.

This tax is not unique to Enhance Energy as all oil and gas companies in the County are required to pay this tax. Based on fairness and equity, if Council were interested in granting this request, it would be appropriate to suspend the drilling tax levy for the remainder of 2020 and re-examine it for 2021. This provides the greatest benefit and treats all companies equally. Yellowhead County is providing this exemption to all companies in 2020. It should be noted that several companies have already been levied and paid well drilling tax for 2020.

2. Paved Approaches Request

Since 2011 Policy OP(29) "Approaches" has required any approach being used for oilfield activity, whether it was an existing or new approach, to be paved to the property line. Even though an existing approach may have a paved apron, policy dictates that when the use of the approach changes to include oilfield activity it must be paved to the property line.

From November 26, 2018 to date, Enhance Energy has applied to use or construct 14 approaches within Lacombe County. Of these 14 applications, 5 of them were made onto paved roads which policy dictates are to be paved to the property line. The remaining applications were for approaches onto gravel roads, most of which were applications to utilize existing approaches.

Of the 5 approaches onto paved roads, 1 was not constructed and the remaining 4 were conditioned to be paved to the property line in the response back to Enhance Energy. However, no security has been provided and the approaches are being used for oilfield activities.



The County's estimate for paving of these approaches for 2020 ranges from \$5,000 to \$7,500 depending of road base work is required.

This policy is in place to protect the paved road infrastructure that these approaches connect.

As this is a Council policy, Council can simply exempt Enhance Energy from this policy by resolution.

3. Property Tax Exemption

Oil and gas wells are assessed using the Province's regulated industrial assessment manual. The well pipe in the ground is assessed as linear and any equipment above the ground is assessed and taxed as machinery. In addition to wells, an operation such as Enhance's would also be assessed for pipelines connecting these wells.

The legacy infrastructure and new infrastructure constructed by Enhance to date was assessed for taxes in 2019 of \$230,448. However, this infrastructure is aging and with depreciation and the lower property taxes for 2020, this infrastructure will see a tax levy of \$170,767 for 2020. This infrastructure will continue to depreciate, and the taxes paid on this infrastructure will continue to decline.

Based on a well depth of 3,000 metres, a new well would be assessed at \$400,000 and pay approximately \$3,674 starting in 2021. This estimate does not include above ground equipment or flow lines that may connect to these wells. The actual CO₂ transportation line owned by Wolf Midstream came online in June of this year and will become taxable in 2021.

As of 2019, Council has broader authority to provide multi-year exemptions for non-residential properties (including machinery and equipment). Under MGA section 364.2, Council may, by bylaw, exempt a class of properties or individual non-residential properties from taxes or defer those same taxes for a period of up to 15 years. Prior to this, Council could only cancel the taxes on annual basis. Despite these powers, the municipality is still responsible for any requisitions levied against these properties making these taxes the responsibility of the remaining property owners in the County.

Like the well drilling tax, it is difficult to look at granting an exemption or deferral of any form to just one company when many oil and gas companies are suffering due to low commodity prices.

Enhance Energy's presentation and subsequent requests were the result of lower than anticipated oil prices. As oil and gas companies are price takers and not price setters, the only area of control for these companies is on the cost side.



The unique operations of Enhance may make them more susceptible to revenue fluctuations.

However, it should be noted that just as prices have fallen over the past 6 months they have also begun to rebound. Enhance used a \$25.00 per barrel price assumption in their presentation. As of June 4, that price is \$37.41 (July delivery). Giving the volatility of these prices, Council would be remiss if it were to grant any type of long-term exemption or deferral to Enhance Energy or any other energy company.

ALTERNATIVES

1. Grant all the requests from Enhance Energy. As mentioned above, given the volatility of prices, Administration does not support the long-term nature of the requests put forward by Enhance Energy.
2. Grant one or more of the requests for the period requested. Administration does not support this request for the same reason noted in option 1.
3. Grant one or more of the requests for 2020 only. Council could consider this option for Enhance and specifically, the well drilling equipment tax. However, if Council is considering this option then it should apply this to all companies.
4. Apply one or more of the requests to all affected parties. To ensure fairness and equity, if Council supports granting a waiver to Enhance Energy, then it should consider providing this to all energy companies.
5. Deny Enhance energy's request outright. Given the uncertainty of 2020, there is high degree of probability that new work in the industry will be avoided. Council should re-examine the well drilling equipment tax in 2021 as several companies have already paid the tax in 2020.

BUDGET IMPLICATIONS

Each of the requests from Enhance Energy Inc would have different impacts on the County's budget. The well drilling tax is a one-time charge based on the number of new wells and the depth of the wells drilled. The County budgets a small amount for well drilling tax and any excess is placed in the community resource reserve.

These wells then generate ongoing taxes as long as the wells are producing. The taxes begin to decline as production declines.

The paving requirement for approaches is one-time asset improvement cost meant to protect municipal infrastructure. This requirement is only required where the approach intersects with paved infrastructure and where no paved approach to property line currently exists.



Any exemption or cancellation on new activity would be an opportunity cost for the County as it is not currently a revenue for the County. Likewise, if no activity occurs there would be additional property tax or well drilling tax for that same period.

LEGISLATIVE RESPONSIBILITIES

Lacombe County Policy Op(29), "Approaches", governs the approaches in County road right of ways.

Lacombe County Bylaw #1289/18 Well Drilling Equipment Tax Bylaw, Well Drilling Tax Equipment Tax Rate Regulation 218/2014 and Part 10, Division 6 of the Municipal Government Act, RSA 2000, C. m-26 (MGA) govern the imposition of a well drilling tax in Lacombe County.

Section 364.2 of the MGA allows for the deferral or exemption of property taxes for non-residential property(s), by bylaw, for a period not exceeding 15 years.

Section 347 of the MGA allows for cancellation, reduction, refund or deferral of taxes.

PUBLIC PARTICIPATION

All participation initiatives will follow the Levels of Engagement table (at the end of the policy). Not all projects require the same extensive stakeholder consultation, but the appropriate approach should be selected on a project-to-project basis.

The County's public engagement will be limited to informing the public of Council's decision on this matter as well as communicating Council's decision to Enhance Energy Inc.

STRATEGIC PLAN

The following elements of the County's Strategic Plan are relevant to this issue:

Our Vision: "An attractive, balanced and progressive community".

Our Mission: "Building a safe and vibrant community through leadership, innovation and the development of healthy relationships".

Key Principles: 1) "Integrity: Honesty and Trustworthy", 2) "Accountability and



Transparent for our decisions and for our actions” and 3) “Fair and Objective in our decisions and how we treat individuals”

Key Success Measures – Financial/Viability: “Success at working within budgets” and “Taxation and fee levels”

Key Success Measures – Sustainability: “Current services are maintainable and provide benefits for the future, while minimizing negative impacts on the community”

RECOMMENDATION

That Council defeat a resolution to approve the Enhance Energy Inc. request for waiver and deferral of well drilling equipment taxes, property taxes and approach pavement requirements.

PREPARED BY: Michael Minchin, Director of Corporate Services

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REVIEWED BY: Tim Timmons, County Manager

A blue ink signature of Tim Timmons, enclosed in a square box.