

## MINISTRY OF ENERGY, MINES AND LOW CARBON INNOVATION

### BRIEFING NOTE FOR INFORMATION

**PREPARED FOR:** Deputy Minister, Fazil Mihlar, Ministry of Energy, Mines and Low Carbon Innovation

**ISSUE:** Potential economic impacts to the petroleum and natural gas sector.

#### BACKGROUND:

In June 2021, the Supreme Court of British Columbia released its decision in *Yahey v. British Columbia*, 2021 BCSC 1287. In consideration of this decision, the Ministry of Energy, Mines and Low Carbon Innovation (Ministry) cancelled the July and August petroleum and natural gas tenure (PNG) dispositions and subsequently <sup>s.16</sup> sales until further notice. Similarly, the BC Oil and Gas Commission (Commission) has <sup>s.16</sup> issuance of activities permits other than for health and safety reasons.

#### DISCUSSION:

Preliminary discussions between Ministry staff and PNG producers have revealed that even a short term <sup>s.16</sup> of tenuring and authorizations will limit capital and operational expenditures and may dissuade future PNG sector investment. The Ministry continues to receive information from PNG operators highlighting the impacts of the <sup>s.16</sup> which is detailed in this section. Table 1 summarizes specific information received from industry. The Canadian Association of Petroleum Producers (CAPP) and the Explorers and Producers Association of Canada (EPAC) provided an assessment based on member data they have so far received (see attached). Their assessment is limited to priority projects and applications as reported by their members and represents approximately 40% of PNG production in the province.

##### *Overall Risk*

Further illustrating the importance of continued access to PNG resources in the province, 2019 figures from CAPP show the scale of annual spending by its members and their contribution to provincial revenue. CAPP's member producers comprise 95% of the PNG industry expenditures in the province:

<sup>s.21</sup>

##### *Foregone Crown Revenue Risk (PNG Industry-Wide)*

- Royalties
  - The Ministry estimates total industry royalties foregone could equal \$88.6 million per year.

- Tenure Sales Bonus Bids
  - Based on recent smaller sales, the Ministry conservatively estimates annual bonus bids lost equal \$2 to \$3 million per year
- Lease Rentals
  - \$220,000 per year lost rent on posted titles is based on the average from recent sales; trend expected to continue.

*Other Impacts*

- Direct, indirect, and induced economic effects as job and local investment income is not distributed into the local economy, e.g.:
  - A 2017 report by the Canadian Energy Research Institute stated that every direct job created in oil and gas creates two indirect and three induced jobs on average.
- Company cash flow will be significantly impacted and thus ability to reinvest in the province.
- Many companies will soon face significant pressures to meet contractual commitments, e.g., North Montney, LNG Canada, processing and other transportation commitments, rig commitments, etc.
- A reduction in Crown revenue impacting the Province's ability to fund government programs.
- Capital flight to jurisdictions with greater regulatory certainty.
- Social impacts in the communities economically dependent on PNG sector employment, taxation, and commerce.

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<sup>1</sup> Table contains confidential information provided by PNG operators and is intended only for use by the Ministry of Energy, Mines and Low Carbon Innovation.

<sup>2</sup> Table does not include all PNG companies having significant investment and current development in BC, such as Tourmaline, ARC Resources and others.

<sup>3</sup> Information is based on 40% of the PNG companies currently producing in BC

<sup>4</sup> A simple extrapolation of CNRL's calculations conducted by the Ministry indicates potential losses of 5,000 to 10,000 jobs industry wide in the province.

**SUMMARY:**

CAPP and EPAC have indicated that “the current s.16 on BCOGC permits and authorizations has created economic risk and is impacting oil and gas activities in BC”.

PNG producers have indicated that s.16 these activities will impact capital spending, operations spending and may result in job losses. s.16

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s.16 The s.16 will also likely negatively impact the Province’s future revenue stream generated by royalties, bonus bid revenue from tenure sales, as well as rental income from new leases.

**Attachment: EPAC/CAPP Feedback on Economic Impact.**

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**EPAC**

The Explorers and Producers  
Association of Canada™  
*L'association des explorateurs  
et producteurs du Canada<sup>MC</sup>*

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