RMA
RURAL MUNICIPALITIES of ALBERTA

Mature Asset Strategy - Member Update

October 30, 2024

For several months, RMA has participated in the Government of Alberta's Mature Asset Strategy (MAS). The MAS is intended to bring government and stakeholders together to develop approaches to support the viability of Alberta's mature oil and gas assets. After participating in several MAS meetings in September and October, RMA is becoming increasingly concerned about:

- The MAS scope and process.
- The assumptions built into the MAS related to the impacts of property taxes and surface leases on the continued operation of mature assets.
- The need to keep as many assets as possible operating for as long as possible "at all costs," regardless of their level of production or the actions of the operator(s).

While RMA has previously provided members with a general overview of the MAS, this update document provides a more detailed breakdown, along with an explanation of some of the assumptions guiding the MAS and RMA's concerns about possible outcomes.

Although RMA has concerns with the approach, RMA plans to continue to participate in the MAS. As one of the few non-industry voices at the table, RMA is participating on behalf of rural municipalities, as well as broader public interest considerations associated with changing legislation or policy to support increased mature asset production.

MAS Purpose

According to the MAS overview provided by the Government of Alberta, the intent of the MAS is to bring together stakeholders to "review multiple aspects of mature assets and liability management" to "arrive at an agreed upon set of facts and/or challenges," which "will lead to recommendations on revising policies, regulations and strategies intended to achieve materially improved outcomes for all Albertans."

Based on MAS documents and discussions in MAS meetings to this point, the MAS process is commencing from an assumption that property taxes and surface leases are barriers to the continued productivity of mature assets and growth of Alberta's oil and gas industry. While RMA strives to participate in all consultations and engagements with an open mind and constructive approach, the assumptions already built into what was billed by the Government of Alberta as a fact-finding process raised immediate concerns for RMA. This concern has intensified as a result of several MAS meetings in which extremely impactful and possibly damaging changes to municipal property tax and assessment processes have been mentioned as possible MAS outcomes, both by industry participants and the individual tasked by the Premier to lead the MAS.

MAS Process

The MAS consists of six "tables," with each focusing on a different barrier to maintaining or increasing mature asset production. RMA was invited to participate in the tables in red below:

- Table 1: Municipal Taxes and Surface Leases

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- Table 2: Resource Conservation and Enhanced Oil Recovery
- Table 3: Economic Opportunities
- Table 4: Decommissioning and Reclamation
- Table 5: Liability Funding Alternatives and Liability Assessments
- Table 6: Risk-Based Decommissioning and Reclamation

Each table will hold four in-person half-day meetings from September to December. At this point, it is not clear to RMA what will occur when the final meeting concludes. Based on an initial overview of the MAS provided to participants, a preliminary findings report will be developed by the end of 2024, followed by the creation of a "master plan" in early 2025. The master plan will then be presented and reviewed by MAS stakeholder participants in spring 2025, with any legislative changes linked to MAS requirements introduced in fall 2025.

Based on the process to date, RMA is doubtful that meaningful progress will be made on drafting or reaching consensus on recommendations in the two half-day meetings remaining in the engagement process. This is especially true of table 1, for reasons outlined below.

RMA Concerns

As mentioned, while RMA has, and plans to continue to, participate constructively in the MAS process, there are several concerning elements that RMA has contested, and that members should be aware of.

Lack of definition of a "mature asset"

To this point in the process, the Government of Alberta has still not defined a "mature asset" or provided a list of specific assets that would be impacted by possible changes recommended through the MAS. From RMA's perspective, this lack of definition has two significant risks:

1. It is extremely difficult to discuss impacts and solutions related to mature assets when participants are unclear on what assets are within scope. This also prohibits meaningful data from being shared by municipal and industry stakeholders as, for example, the general proportion of a company's operating costs linked to property taxes may differ significantly for their overall asset portfolio compared to a sub-set of mature assets.
2. It is likely to result in recommendations that are very broad and could apply to a wide range of assets across the province. From RMA's perspective, the two likely methodologies to define a "mature asset" are based on the asset age or level of production. Depending on which is used, recommendations could vary significantly. The current lack of definition is likely to produce very broad recommendations that may provide unnecessary benefits to companies and assets that do not require them. This could include reductions in taxes and surface leases, as well as regulatory rollbacks and modifications or reductions in liability obligations.

In response to multiple requests from RMA, the Government of Alberta has recently provided the following map showing where mature assets may be located:

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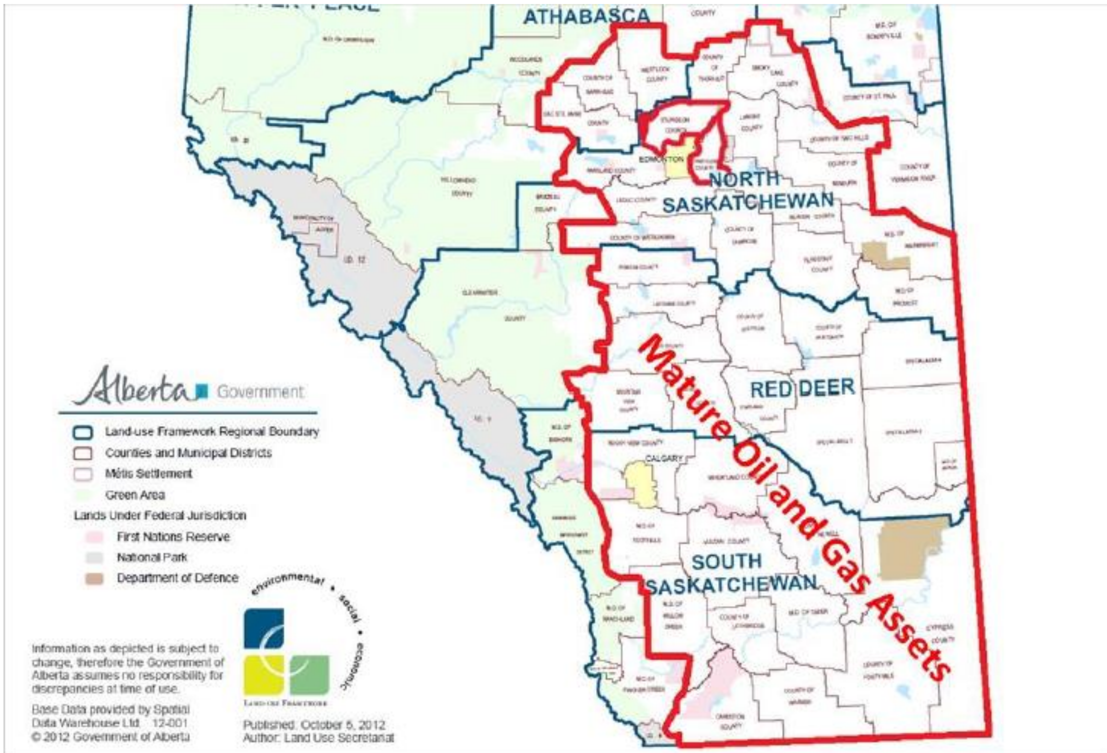

As additional context, the GOA has also stated that "mature assets…are in areas with a longer history of development that have reached a state of declining production or are otherwise reaching the end of their productive lives." However, they have also stated that "the municipalities in the mature boundary area may include reservoirs not considered mature."

The use of municipal boundaries is arbitrary and does not align with drilling patterns, etc. Additionally, this place-based definition is virtually useless without knowing the portion of assets in each municipality that are mature, or whether recommendations made through the MAS will be applied to all assets within the boundaries of the 37 impacted RMA members shown above.

Assumptions regarding the impact of property taxes on mature assets

Despite repeated statements from MAS organizers that their intent is to learn from stakeholders and approach the project with an open mind, the terms of reference for MAS Table 1, as well as comments from those organizing the process, suggest an embedded assumption that municipal taxes pose an unreasonable burden on companies operating mature assets, and that Alberta's property tax system requires significant changes to better accommodate the fiscal challenges associated with operating low-producing or low-value wells. This is captured in the following statement from the terms of reference:

> Working Group 1 is established to evaluate the impact of fixed costs on the commercial viability of mature producing assets and recommend modifications to the current fiscal regime and municipal tax system as it applies to producing assets on private land and host municipalities. Recognizing the unique challenges presented by the assessment of oil and gas assets, our purpose is to ensure a fair,

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> sustainable, and **equitable taxation and lease framework that reflects the declining value of these assets over their useful life and the economic realities of the industry**.

In other words, rather than research if and how property taxes and mature asset viability are related, the MAS will rely on assumptions to move forward with "modifications" to the assessment and tax system which would, based on the example given in the above excerpt, represent a radical transformation of the entire municipal revenue model.

What has not been considered and does not appear to be well understood by MAS organizers is the importance of a stable assessment and tax base to municipal planning, and the impact that modifying assessment or tax amounts for a sub-sector of a single industry will have on all other commercial and residential taxpayers in the province. The assumptions informing the MAS are based on a strict industry lens on property taxes as a cost to be reduced or eliminated, without consideration of **why** properties are assessed and taxed, the rationale as to **how** assessment and tax functions, and **what** tax revenues are used for.

Despite this, neither government nor industry has provided any meaningful data to this point as to the extent to which property taxes impact the viability of mature assets (partly because "mature assets" remain undefined!). Other stakeholders have excused their lack of evidence and data as being due to confidentiality requirements linked to proprietary data. While this could be a challenge, it is difficult to understand how the MAS will "arrive at an agreed-upon set of facts" if stakeholders are expected to simply take industry's word that property taxes are too high without understanding how they compare to other operational costs, regulatory costs, etc., their impact on mature versus non-mature assets, and the impacts of reductions or other changes on municipal operations.

Assumptions on property tax-related changes

Based on a review of MAS written materials and participation in two meetings, the "solution" to property taxes impacting mature assets has already been decided, and is exemplified in this excerpt from the terms of reference:

> The current municipal tax regime for oil and gas assets is generally related to the overall property assessment model which is based on the value of assets, or "ad valorem" (at value). However, oil and gas producing wells decline in value because the amount of recoverable hydrocarbons is finite due to reservoir depletion and other factors such as commodity prices and increased maintenance expenses based upon the service life of the equipment.
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> **Determining a regulatory framework and fiscal regime that better reflects the variability of an asset's value throughout its life is important in ensuring assets are not prematurely shut in or abandoned, while continuing to provide a tax base for municipalities**. Funding for infrastructure maintenance such as roads and bridges is essential.

This position has been mentioned repeatedly by MAS organizers despite no evidence of if and to what extent taxes impact mature assets as opposed to other oil and gas assets and other property types. If such an approach were implemented, it would wreak havoc on municipal planning as tax revenue would shift dramatically based on production. It also ignores the impact on all other taxpayers who would be forced to absorb similarly unpredictable property tax obligations to off-set the huge swings that this policy would introduce, especially in municipalities with a large mature asset base.

RMA's view is that the up-front focus on a commodity price-based property tax system immediately undermined the MAS process and shows the "tunnel vision" of the MAS on subsidizing oil and gas at the expense of municipal service delivery and all other taxpayers in the province.

Disregard for surface lease obligations

Table 1 includes participation from an oil and gas company with a long history of attempting to arbitrarily renegotiate surface lease payments with landowners and relying on the Land and Property Rights Tribunal in cases where landowners refuse to reduce the lease amount to which they are legally entitled. The presence of this company in the MAS process is a strong signal that the organizers view surface leases as another cost to be reduced, rather than a requirement for responsible and accountable companies. According to the terms of reference, surface lease payments should similarly be linked to the value of a well, both in terms of level of production and commodity price. This is another example of viewing the issue strictly through the lens of industry, and ignoring the fact that regardless of production, the **presence of the well** impacts access to land and productivity.

RMA is seriously concerned that MAS recommendations may include significant changes to surface lease requirements to further legitimize industry pressure of landowners, abuse of appeal processes, arbitrary partial reclamation, and perhaps other changes to subsidize companies on the backs of rural Alberta landowners.

Lack of data and evidence

In addition to the lack of a mature asset definition or list of impacted assets, the MAS process has included very little background data on the fiscal condition of individual companies operating mature assets, the industry as a whole, or municipalities. This is despite the fact that the MAS is being run out of the Premier's office, and based on statements made by the MAS organizers, have had direct access to personnel and data in multiple ministries, including Energy and Minerals and Municipal Affairs.

From RMA's perspective, a lack of data means one of two things:

1. The outcomes of the MAS have already been determined and the "engagement" process is unnecessary.
2. There is an actual lack of data related to the industry, in which case the MAS process must take a step back from musing about solutions and focus on identifying what data is needed to understand how to balance support for industry with other stakeholders, and begin the process of gathering it.

Considerations and Next Steps

While RMA and its members are long-time supporters and champions of the oil and gas industry, any changes to property assessment and taxation, or other industry incentives with a direct impact on municipalities or rural communities, must be considered through multiple lenses (industry, municipality, community, landowner, environmental, etc.) and should not be seriously considered until those proposing it can provide a clear explanation of who will benefit and why, how non-industry stakeholders (including municipalities) will be impacted, how impacts can be mitigated, and how success or failure will be evaluated. Only when these questions are answered should more specific engagement on if and how to implement changes commence.

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The MAS process is backwards. It starts from an assumption that the property assessment and tax system must be reformed in a very specific way to support an undefined sub-sector of a single industry. In fact, a Municipal Affairs presentation at a recent MAS meeting stated that shallow gas wells (which Municipal Affairs used to proxy mature assets, although this is not an agreed-upon definition), constitute only 0.001% of Alberta's overall assessed property value. If this is the case, it is difficult to understand why a shift in assessment and tax policy that would impact every property owner in Alberta is even being considered.

Given the massive local and regional impacts that some of the proposed changes would have on rural municipalities and communities in central, eastern and southern Alberta, RMA suggests that members reach out to local MLAs to understand their perspective on the MAS and the impacts that some changes being considered would have on municipalities and rural landowners. RMA plans to continue to participate in the MAS process at this time.

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