

Good regulation needs good policy
OR
This is not same old, same old, anymore
OR
Shift happens

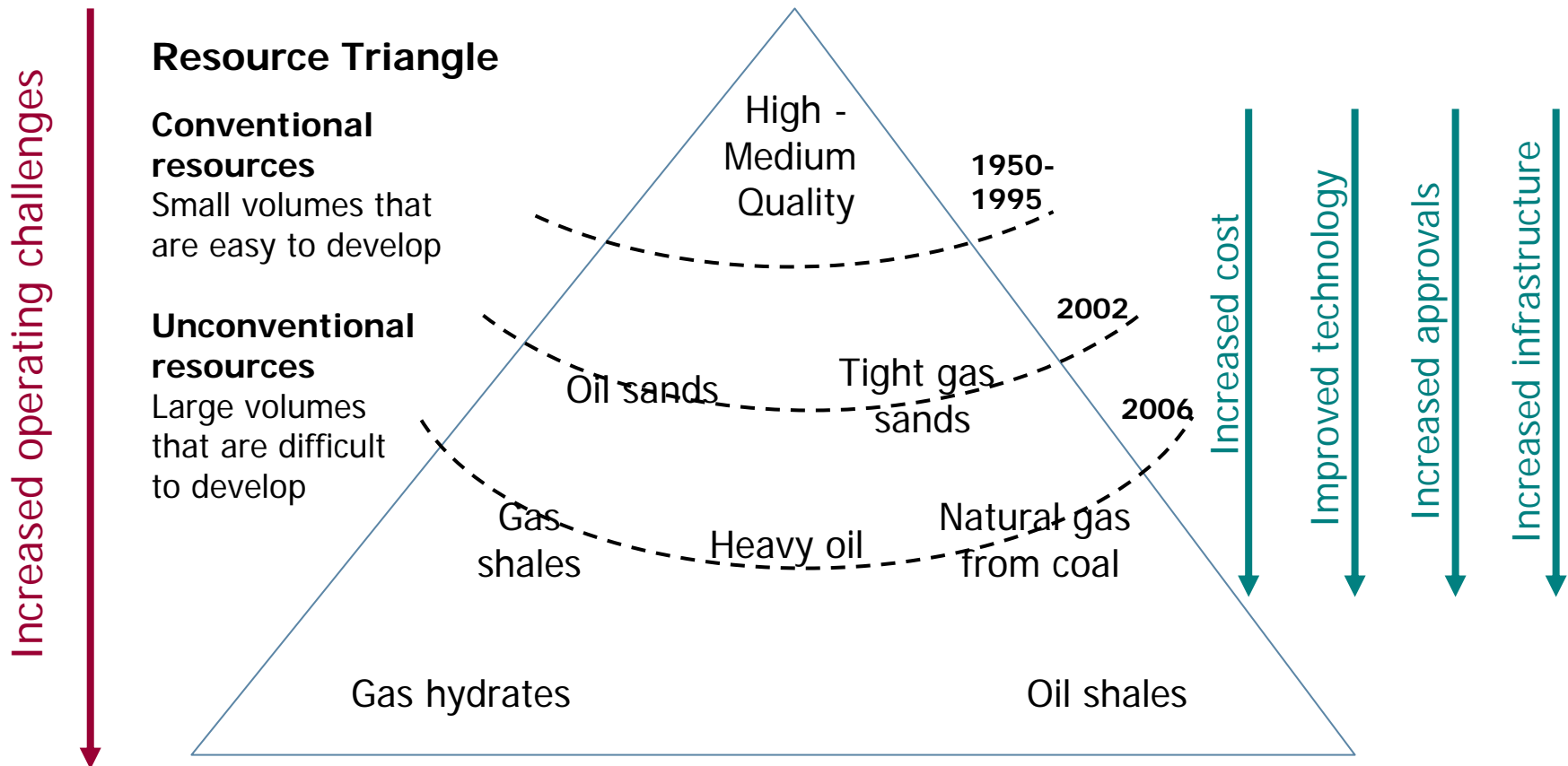
*Pierre Alvarez, President
Canadian Association of Petroleum Producers*

- **Forecasts show unconventional resources playing a bigger supply role, e.g.**
 - Oil sands production increasing to 3.5 million barrels per day by 2015
 - Natural gas from coal, frontier and deep foothills wells will account for the majority of new production
 - Average drilling density increasing (“more straws in the glass”) and competition for the land base escalating
 - Major transportation corridors for new resource projects (Mackenzie/Alaska gas, U.S./Pacific markets for oil) required

- **New infrastructure needed to link new supply to changing markets, e.g.**
 - Pipelines from new basins to markets – e.g. frontier gas or to handle enhanced oil sands production
 - Upgrading and refining capacity to handle an increasingly heavy barrel – both in Canada and the U.S.
 - Municipal, social and transportation infrastructure will determine ability for projects to meet timelines and budgets

- **Costs and complexity of finding and developing new supply rapidly escalating, e.g.**
 - Average finding and development costs continuing to spiral upwards (among the most expensive in the world)
 - Public, landowner and investor expectations regarding environmental, health and safety performance will grow every year – policy will need to change as industry changes
 - Aboriginal consultations requirements unclear
 - Increased federal role in resource decisions (CEPA, climate change) – cost and jurisdictional issues
 - Growth will be shaped by availability of skills, physical infrastructure and research/innovation

Working down the resource triangle = increased operating challenges



Source of image: Canadian Society for Unconventional Gas
Submission to Council of Energy Ministers, September 2003

- **Pricing**
 - What happened to the six to one oil to gas ratio?
 - Heavy oil differentials swinging from \$12 to \$42
 - Will LNG be a price floor or ceiling?
- **Global supply-demand (im)balance**
 - Political uncertainty – Middle East, South America
 - Demand – role of emerging economies
 - Regulatory uncertainty over project approvals in light of competition for capital and expertise/teams
 - Technology choices and breakthroughs
- **Government policy in light of higher prices**

Good regulation requires good policy, so governments must.....



- **Recognize markets are volatile over time**
 - Solution is not to promise solutions that aren't realistic and scare off investment – don't ask regulators to solve political issues over prices
 - Solution is to commit to open, functioning markets that recognize global energy market and investment realities
- **Recognize that further down the triangle demands new policy so regulators do not become battleground**
 - Regulation should be about “how” not “if” an activity will proceed once exploration right sold – “if” is the politicians responsibility
 - Regulation should be about ensuring environment, health and safety while promoting best practices

Good regulation requires good policy, so governments must.....



- **Recognize that approvals are becoming more complex and a major competitiveness criteria**
 - Solution is not to toss regulatory reform on the too hard to do pile
 - Solution is to move to smart regulation so that certainty and clarity are clear from the outset
- **Recognize that energy policy is the flip side of many policy areas**
 - Social, environmental, trade, skills development, public infrastructure, Aboriginal, climate change are not discreet issue areas
 - Solution is to recognize that energy policy is at the core of the modern economy and environment and should be treated and resourced as such

- **“If your question is “Would the policy and regulatory regime in place today be the one we would design to oversee today’s industry?” the answer is “no way”. It is the result of years of minor changes when what we really need is major surgery to take advantage of the opportunities this industry represents**

– Ken Smith, Former Deputy Minister of Energy for Alberta