

## Sustainability of the Shallow Natural Gas Industry in Saskatchewan

### Background:

As Saskatchewan emerges from the COVID-19 pandemic, one of the foundations of economic recovery will be the province's natural resource industries. Further to this, as lower-carbon base-load energy continues to be in high demand in Saskatchewan, and beyond, the potential for natural gas development and enhancement is a prime opportunity. Nevertheless, for the province to capitalize upon this, taxation and regulatory hurdles need to be addressed.

Saskatchewan's gas production represented approximately 2% of the total Canadian natural gas production in 2018. Today most natural gas produced in Saskatchewan is a by-product of oil production. However, in 2020 gas wells from the Milk River shallow gas space, which is located in southwestern Saskatchewan, produced about 33% of Saskatchewan's total field production. This shallow natural gas development is a different operation from the oil industry, and regulatory and taxation structures need to be established to enable its growth in Saskatchewan.

The recent depression in gas commodity pricing has brought the regulatory and taxation issues facing the shallow gas industry in Saskatchewan to the forefront. Addressing them now will not only preserve the industry today but will benefit the future of shallow gas development in the province.

### Recommendations:

The Saskatchewan Chamber of Commerce is a proud member of the *Saskatchewan Growth Coalition*. In spring 2021, the *Saskatchewan Growth Coalition* undertook a broad effort to outline Saskatchewan's ongoing competitiveness challenge related to rural municipality (RM) property tax policy decisions and the resulting effective mill rates on the commercial/industrial property class. The Coalition identified two major problems that are severely limiting the province's ability to generate the investment needed to reach the ambitions in Saskatchewan's Plan for Growth: inequitable municipal property taxes and lack of financial transparency. The issue of RM property taxation is particularly pronounced for the shallow natural gas industry as low volumes of gas production occur from many wells drilled over a large land base across multiple RMs. To ensure the sustainability of this industry, the Government of Saskatchewan foremost needs to act upon the recommendations made by the *Saskatchewan Growth Coalition*.

If Saskatchewan loses its shallow natural gas well capacity, it will be extremely challenging to ever resume the industry. With this in mind, the SCC recommends the Government of Saskatchewan find a negotiated pathway forward to ensure that natural gas companies operating in Saskatchewan can stay solvent. Specifically, the Chamber wants the government to re-examine the Oil and Gas Regulatory Cost Recovery Levy with the aim of creating smaller subsections reflective of the lower volumes generated by shallow natural gas wells. Beyond this, the SCC also urges the government to separate out shallow natural gas from the broad oil and

gas industry in regulations and policies. The unique structure and revenue potential of the shallow natural gas industry should be reflected.

Finally, the SCC recommends that the Government of Saskatchewan work with the federal government on the Accelerated Site Closure Program funding to make it available to companies that are struggling and in arrears to various entities. It is these companies that need access to these funds the most and it should be available to them.

### **Conclusion**

Saskatchewan is home to an amazing array of natural resources, world-class talent and expertise and, although the shallow natural gas industry is struggling, it can still contribute to the provincial economy during this challenging time. The provincial government has a role to play in ensuring it does not drive this industry into extinction through administrative burden and taxation. Addressing these issues now will not only preserve the industry today but will benefit the future of shallow gas development in the province.