FOOT OFF THE GAS

Regulating BC's Oil and Gas Industry as if the Environment Mattered

SUMMARY

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By Ben Parfitt

To meet the ambitious reductions in greenhouse gas emissions that it has set for the province, British Columbia's government will have to act boldly and on a number of fronts.

One of the greatest challenges the province faces is regulating its oil and gas industry, an industry that has been a significant player in the provincial economy in recent years and that has been growing in importance relative to other resource industries.

In this regard, the province finds itself in a difficult position. On the one hand it has committed to cut overall greenhouse gas emissions by one third by 2020. On the other hand, it continues to subsidize the oil and gas industry, which is a major source of those emissions.

This paper argues that in order to make a credible effort to reduce greenhouse gas emissions, the province must stop the growth of, and gradually scale back, activities in the oil and gas sector, which is a major contributor to the climatic mess we find ourselves in. Not only must the province phase out subsidies to oil and gas companies, but it must move swiftly to put an end to industry practices such as gas flaring.

Gas flaring – the controlled burning of gas rather than putting it into a pipeline[1] – is a common industry practice that has significant social, economic and environmental consequences. It is:

- Unnecessarily wasteful;
- A major source of greenhouse gases;
- Harmful to public health; and
- Harmful to the provincial economy and resource communities alike.

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On the gas flaring front, this report concludes that on average in each of the past 10 years, the deliberate burning or flaring of natural gas and the leaking or loss of gas at production facilities accounted for a staggering 13.5 per cent of BC's greenhouse gas emissions. Significantly, the BC government has announced its intention to see flaring eliminated – something that can be done, as evidenced by trends to the east in Alberta. There, the government began a concerted effort a decade ago to reduce the unnecessary flaring of natural gas. Since then, there has been a 70 per cent drop in flaring activities. BC has seen no decline during this time.

In addition to the impact on the climate from gas flaring, there are economic costs. This paper shows that, based on average royalty payments in the years 2004 and 2005, the BC government would have collected an additional $225 million and $303 million respectively in royalty payments, had gas that is flared gone instead to market.

On the subsidies front, this paper shows that last year and for the next three years (2006/07 to 2009/10), the cumulative effect of provincial government subsidies to the oil and gas industry are slated to be $1.05 billion. The subsidies primarily take the form of breaks or reductions in royalty payments. Energy companies qualify for the breaks based on:

- Wells drilled in summer rather than winter months;
- Drilling deep wells;
- Drilling "marginal," "low" or "ultramarginal" wells; and
- Some road and pipeline construction.

One of the consequences of this is that the province is encouraging even greater fragmentation of northeast British Columbia's already heavily damaged environment. This report notes that over the past 10 years the production of marketable natural gas in northeast BC has climbed by nearly 41 per cent. But because the nature of gas reserves is changing, there is now less gas on average per well than there was a decade ago. One industry estimate is that it takes four wells today to produce the equivalent amount of gas that one well produced 10 years ago. Consequently, to achieve the 41 per cent increase in gas output in northeast BC, the number of wells drilled over the same period increased by 209 per cent and well depths increased 363 per cent. This has enormous environmental consequences. First, more energy is required and more greenhouse gases are emitted because more wells are drilled. Second, more forest and important wildlife habitat is shredded or fragmented because of the expanding infrastructure of roads and pipeline corridors required to link the proliferating number of smaller wells.

Ongoing subsidies will only serve to accelerate those trends and to increase threats to some of northeast BC's most important wilderness areas. Furthermore, they will accelerate the end of a resource upon which much of northeast BC is currently dependent. At current rates of consumption, all known and believed to be available conventional natural gas resources in northeast BC will be exhausted in 33 years. That timeline would be halved if earlier provincial government projections of a doubling in oil and gas industry activities materialized. However, given the government's more recent commitments to lower the province's greenhouse gas emissions, the objective of doubling production may now be a thing of the past.

To truly stand a chance of reducing greenhouse gases, and to adequately protect the environment and economy, particularly in the energy-rich northeast region of BC, the provincial government needs to introduce substantive and far-reaching policy reforms. Failure to do so means not only increased greenhouse gas emissions, but a damaged economy because at present the province is relying too much on revenues generated from non-renewable fossil fuel resources.

The report concludes with six policy recommendations:

- Rapidly phase out all provincial government subsidies to the oil and gas industry.
- End gas flaring in BC, and impose increasingly higher fines on companies that fail to meet deadlines. In addition, immediately charge royalty fees on every unit of gas flared.
- Place annual limits on the amount of natural gas produced.
- Implement a carbon tax.
- Raise royalty rates and create a stand-alone provincial fund, similar to Alberta's Heritage Fund, which is funded by a portion of energy royalties and carbon taxes.
- Keep protected areas and special management zones protected.

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These measures would have the important effect of conserving more of a non-renewable, publicly owned resource. As important, they would lay the foundation for a northeast energy industry with a far smaller ecological footprint – precisely what is needed at this time.

ABOUT THE AUTHOR

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