Canadian Natural

Mr. Steve Upham, Reeve
County of St. Paul
5015 - 49 Avenue
St. Paul, AB T0A 3A4

February 25, 2016

Dear Mr. Upham:

Re: Property Taxes Letter to Municipalities

Last year was challenging for the oil and natural gas industry in Alberta, and directionally this year is looking to be even worse. To maintain investment and keep Albertans working, Canadian Natural has been urgently focused on reducing costs and improving the way we do business. To this end, I write to request your assistance by reducing the property tax burden.

Introduction to Canadian Natural

By means of introduction, Canadian Natural is a large independent oil and natural gas producer, and is proud to be a Canadian company based in Alberta. We take pride in delivering energy to Canada and the world in a safe, effective, efficient, and environmentally responsible manner.

Canadian Natural is based in Calgary, but has more than 7,000 employees with operations spread across 90 communities in the province. Importantly in 2014, Canadian Natural was able to create 74,000 person-years' worth of work in Alberta. This includes 155 direct jobs along with more than 1,300 indirect and induced person years of employment created by our activities in the County of St. Paul alone. In the county, Canadian Natural's operations are located in Lindbergh, Elk Point, Frog Lake, Moose Hills and Saddle Lake, as well as other smaller field offices.

Oil and natural gas competitiveness challenges

The competitiveness challenges currently facing the oil and natural gas industry are not solely a function of low prices. Cost increases have been significant over the last decade and have eroded economic returns, even at higher prices. The recent Royalty Review Advisory Panel Report acknowledged this fact: "Close to 100% of a barrel's value was consumed by costs in 2012 and 2013, the first time since 1960. ... Operating costs also rose on the back of chronic global and local inflation in services, wages, municipal taxes, regulatory compliance and surface access fees."(p. 33)

To deal with these challenges, Canadian Natural has been focused on reducing costs in the following ways: reduction in staff salaries and in contractor costs, improved productivity, material cost reductions, as well as technology and innovation adoption to improve efficiencies. As a result of these efforts, we have been able to reduce Canadian Natural's operating and capital costs in 2015. This year is shaping up to be even more challenging considering forward looking commodity pricing. As an industry we are price-takers which require us to allocate our budgets based on current and forward looking revenues. To that end, we are working very hard to reduce costs even further and we need your cooperation and assistance.

Property Taxes

Provincial and Municipal Governments determine fiscal terms and regulations, which are major factors influencing industry competitiveness and cost. Given the challenges facing the oil and natural gas industry, there is a critical and urgent need to reduce the property tax burden.

Property taxes are a significant and growing cost for the oil and natural gas industry.

- From 2004 to 2014, Canadian Natural realized a 1.5 times increase in revenue per barrel of oil equivalent (BOE) received. Over the same period, our property taxes grew 5.2 times more than revenues per BOE produced.
- For Canadian Natural, property taxes totaled 6% of operating costs in 2014 and are expected to reach 8% in 2015. In some areas, property taxes can account for more than 20% of operating expenses and one should conclude, not sustainable, which may result in the production being shut-in.

It is appropriate for industry to pay property taxes at a level commensurate with municipal services received, at a rate equitable to other ratepayers, and assessed fairly relative to the value of the facility. But property taxes have risen to an unsustainable level, which for many assets exceeds the royalties paid to the Government of Alberta. As a result, the property tax burden is a critical and urgent issue, unduly impacting business decisions and seriously eroding the ability to maintain investment and jobs. Increasing property taxes are likely to result in early abandonment of wells and facilities which will reduce the assessment base, local employment, royalties, and corporate taxes. The recent Royalty Review Advisory Panel Report notes: "...mill rates for taxes can vary widely across the province, thereby placing current and future development at risk." (p. 73)

There are important provincial policy changes related to assessments, mill rates, and infrastructure funding programs that can help address these concerns. It is our hope that industry, municipalities, and the provincial government can work together on these issues. But to address this urgent challenge, we are also writing municipalities where Canadian Natural has major operations to request the following immediate actions:

1. Reduce 2016 property taxes by 30%.

Canadian Natural has observed significant increases in non-residential mill rates in many municipalities over the last decade. In particular, there has been a significant increase in the ratio between non-residential and residential mill rates.

Oil and natural gas prices have declined significantly and no price recovery is expected anytime soon. Even when we do see a recovery, we do not expect it at the same levels we have seen in the past. It is reasonable to expect that the assessed value of industrial and non-residential properties should decline in 2016, given that asset value has declined.

It is therefore an urgent opportunity for municipalities to deliver a 30% reduction in property taxes by adjusting the non-residential mill rates downwards.

2. ***Reassess population and activity forecasts that underpin municipal development plans to better reflect reduced activity levels.***

According to the Canadian Association of Petroleum Producers (CAPP), oil and natural gas capital investment has declined by 48% since 2014. In 2015 there was a 49% year over year reduction in wells drilled; in 2016, another reduction of 10% year over year is expected. Given reduced activity levels this year and into the future, it is likely that demands on municipal infrastructure and services will also be reduced.

3. ***Review capital and operations spending to find cost reductions and ensure that spending is built-to-need and right-sized.***

Given current market conditions, there are significant opportunities for reductions in material costs and contractor rates. As such, there are likely opportunities to reduce municipal budget requirements while still providing important services.

Canadian Natural is urgently focused on reducing costs and improving the way we do business to attract investment and keep Albertans working. Local Canadian Natural representatives will be in touch to discuss these challenges in your municipality. Given the challenges facing the oil and natural gas industry, there is a critical and urgent need for help. Thank you for your consideration.

Sincerely,

Scott Stauth
Senior Vice President, North American Operations
Canadian Natural Resources Limited

CC. Council
CAO