# Oil and Gas Strategy Report

## West Central REDA

*June 15, 2006*

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**Western REDA Partnership**

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# Preface

The following report has been compiled specifically for the West Central REDA region. Although many of the issues related to oil and gas are common to the total partnership regions, the circumstances for both existing and potential development of this sector are quite different. The REDA regions also have some different priorities for the assignment.

In West Central REDA the primary objective is to examine (perceived) inequalities for oil and gas related businesses between this region and neighboring areas of Alberta. Information is needed on those issues that are seen as barriers to location of these businesses in this region vs. Alberta locations. The goal is to develop a strategy that addresses the issues including any special incentives and/or other initiatives.

Initial findings by the consultant indicated that virtually all the issues expressed by the industry related to provincial government taxes and royalty rates. The considerable differences between this province and Alberta were seen by the industry as a major obstacle to development and location in Saskatchewan. These issues were addressed in an interim report to the partnership.

Coincidental to this project the provincial government was developing a business tax strategy based on (somewhat) similar findings by a business tax review committee. Information related to the oil and gas business issues were a part of the government process to reduce the business tax burden.

It became apparent that there would probably be some major tax changes made in the April provincial budget. Any strategy that was developed from the base information in this study could be somewhat useless. As a result the project was put on hold until after the budget was released.

The budget did contain relatively major changes to the business tax structure including some of the primary issues that had been identified and expressed in the interim report. The number one issue, the PST, was not changed but the other two primary tax issues were reduced considerably and brought more in line with the Alberta tax structure. These changes should result in a more competitive position for the West Central REDA region.

# Executive Summary

The primary purpose for this assignment was to determine what strategies could be used to further the development and benefits of the oil and gas sector within the region.

The perception is that this region does not benefit as much as it should from this important industry.

## A. The Industry

Most of the industry located within this region are those service and supply businesses that naturally follow the primary production of oil and gas. They are dependent on the primary producers' activity for their business.

The number of service and supply businesses located in Saskatchewan and West Central Saskatchewan is small relative to the amount of oil and gas activity.

Recent spikes in energy prices have created some expectations that massive new developments would be taking place. While the industry activity is strong, massive development is not happening. Development is limited by resources, especially labour and equipment.

## B. Barriers to Industry Development

A sampling of oil and gas related businesses were interviewed to determine what issues prevent or encourage business development and/or location in this region. These interviews were conducted prior to the recent provincial budget changes in tax rates.

All of the primary issues that industry representatives view as obstacles to locating in this region are provincial government related. The four most common issues raised are:

1. **Provincial Sales Tax (PST)** was raised by almost all interviewees and ranked as the number one issue by almost half of the industry reps.
2. **Royalty Rates** were ranked as the second major issue even though some reps did mention improvements in recent years.
3. **Corporate Capital Tax** was considered a major impediment to primary producers' investments which in turn results in less business for all of the industry. This tax is now being removed by the province.

4. **Income Taxes** were considered an issue for both the industry and the individual operator or employee. Industry tax rates were also adjusted in the provincial budget and should now be more competitive with Alberta.

Other issues raised by the industry reps included; provincial government labour laws; provincial and municipal roads; municipal tax rates; and, regulations. None of these were considered major issues and some positive comments were made about the relationship with some municipalities.

In addition to these tangible issues there is also a negative perception within the industry that Saskatchewan is 'less friendly' to the sector than Alberta. A number of comments were made that suggest a fairly widespread negative impression of the province by many oil and gas businesses.

***Note:*** One issue that limits industry expansion in either province is the shortage of skilled and even unskilled labour. This issue, along with some equipment shortages, was raised as a major impediment to general industry expansion.

# C. Impact of Provincial Tax Changes

The recent provincial budget that reduced business income taxes and began elimination of the corporate capital tax should have a positive impact on oil and gas development. These changes do help to overcome some of the obstacles to development and provide some tangible demonstration that the province is trying to be more favorable to industry.

Saskatchewan went from being the highest business taxed region west of Quebec to the second lowest, next to Alberta. Some of the reductions in tax rates actually exceeded what the oil and gas industry had asked for in presentations to the tax review committee.

The changes will directly benefit the larger primary producers and would therefore offer some spin-off benefit to those that service and supply that sector. But the results may be marginal.

While any increase in primary production will help business expansion, the problem remains that the PST is still the largest deterrent for the service and supply sector. Most of these businesses are too small to directly benefit from the recent tax changes and there is little reason to expect that they will now want to locate in the region as a result of the new tax structure.

# D. Northwest Region

**Business location**

Attempts were made to determine if, in fact, this region is not receiving its appropriate business development activity from its oil and gas resources.

A review of the number of oil and gas related businesses was done to compare this region to the neighboring Alberta regions. Also, a comparison was done to the southeast Saskatchewan region where the proximity to Manitoba presents less competition for business location in that region.
There are about 85 service and supply businesses located in this region. That compares to 280 in the immediate adjacent Alberta area. In addition, Lloydminster Alberta has 270 and Lloydminster Saskatchewan has 30.

Southeast Saskatchewan has 245 oil and gas businesses serving about 8800 oil wells. That compares to northwest Saskatchewan businesses serving about 5200 oil wells and 1000 gas wells. Dollar production in the southeast is about a third more than that of northwest.

Indications are that the oil and gas activities in this region should be providing more local benefit. Communities in the region do not profit as much as those in Alberta or possibly even southeast Saskatchewan.

**Regional Advantages**

A review was done to determine if there are local cost advantages that could encourage business location in the region's communities. Information was obtained on real estate costs, taxes, and utilities. These were compared to adjacent Alberta location.

The differences in taxes and utilities were not found to be a significant issue. One exception was the Saskatchewan method of collecting education taxes through property taxes.

Real estate differences provided the biggest potential opportunity for promoting the region's locations. Much higher prices for both residential and commercial property in eastern Alberta provides this region with a major advantage.

## E. Industry Information / Tracking System

Tracking oil and gas development in this region is useful for planning economic development strategies. Any developments/changes need to be known to the organization and to business and investors in the area.

It is suggested that the REDA begin by developing a system that is confined to tracking the indicators of interest in undeveloped areas. This could begin with the provincial exploration and land sale reports and eventually incorporate municipal reporting.

A complete tracking system will need to incorporate the primary sources of information with a priority on municipal cooperation and provincial government sources.

The recommended system includes information gathering from municipalities and the provincial government. This includes; land leases; exploration permits; seismic activity; drilling licenses; and production.

# F. Strategy Alternatives

## Addressing the Issues

The following comments and recommendations are provided for consideration in response to the primary issues raised by industry:

### 1. Provincial Sales Tax (PST)

- **The provincial government should be made aware of the negative impact the PST has on the development of oil and gas related businesses in this region.**

There is some speculation that the province may be considering an adjustment to the PST in the next budget cycle. Any additional information that demonstrates the negative impacts of this tax may help influence a tax reduction.

A general tax reduction may be the best opportunity for change to this issue. Specific regional exemptions could be pursued but are unlikely.

### 2. Provincial Assistance for Roads

- **Local governments should request assistance for municipal road construction in marginal oil and gas areas.**

The province is the biggest loser in lost revenue if marginal oil and gas areas are not developed. The province should be more of a partner in encouraging this development with road assistance in the municipalities.

### 3. Addressing 'Negative Perceptions'

- **Provincial funding should be requested to establish an oil and gas industry 'advocate' to be located in the west central region.**

The industry has some impression that they are not welcome in the province. Much or most of the dealing between the industry and the government at the field level surrounds compliance to regulations.

To help address this negative perception an industry development person, working in the region with the objective to 'assist' industry development, could provide a more positive image for the province and the region.

A pilot project should be proposed utilizing the REDA partnership to manage the project. A partnership with local governments could be considered.

This person would essentially act as an economic development officer specializing in oil and gas.

- **Local governments should maintain regular and routine communication with the oil and gas industry.**

Regular communication with industry that involves a partnership of the municipalities helps overcome issues, especially where there are differences between RMs in the region. Consistency and support is important to the industry.

This is already done in some areas but could be expanded and improved to include all local governments and industry.

## Marketing Initiatives

There is need for the region to improve its marketing activities related to encouraging more local benefit from this industry. Existing efforts are limited and generally ad hoc.

The summary on the next page provides recommended promotion alternatives for consideration. Suggestions are intended to be realistic and within the resource capability of the region.

The recommended focal point for the strategy is the web site. All other promotion can then refer to the site. Over time this site will serve as the primary information source for prospective industry.

| Alternative | Recommendations |
|---|---|
| 1. **Web Site Development** – The internet is fast becoming the primary means for locating business information. It can often be the only source for initial location decisions. | • Update and improve existing community and reg information.<br>• Design a 'linked' site dedicated to the oil and industry. |
| 2. **Events** – This busy and somewhat fragmented industry can be difficult to target. Business operators will often come together at industry events. | • Promote the community/region with sponsorship a promotion initiatives at local industry events.<br>• Participate in oil and gas shows and other ev possibly in partnership with other REDAs and/or tou associations. |
| 3. **Community Image or 'Branding"** – communities need to adopt an image that differentiates from other locations. | • Develop an image that includes reference to busi For example: 'Enjoy Quality Life-Style in a Bus Friendly Atmosphere'. |
| 4. **General Advertising** – Some general ads could be used to promote the communities. | • Industry specific publications should be a priorit general ads. Trade publications would help sp targeting.<br>• Newspaper and other general advertising coul used to target industry in specific locations suc eastern Alberta cities. |
| 5. **'Ambassador' Program** – Existing industry residents can assist promotion initiatives when visiting industry events and other business activities. | • Provide local businesses with information useful fo discussion regarding doing business in the region.<br>• Appoint community ambassadors and provide s common 'identifier' logo and other items to be us promotion. |
| 6. **Brochures** – Some basic 'hand-out' tool is useful for trade shows and other promotions. | • A brochure that specifically targets this indust needed. This can be an industry specific inse existing publications. |
| 7. **Local Lodging Industry** – Many prospective business operators are already doing work in the region and stay at local hotels. Prospective new business operators are often employees of these businesses. | • Secure the assistance of lodging operators to pro the community as a good place to live and do busin<br>• Provide information and promotion tools and con special offers as incentive to the operators. |
| 8. **Labour Force -** Strong demands for industry labour limits some expansion. Businesses may be influenced on location decisions if it can ease their labour shortage. Initiatives that help enhance labour supply in the region will be viewed positively by the industry. | • In-migration promotion that encourages labour to l in the region should be a part of the prom objectives.<br>• Improved community information is needed includes some priority on employee location. |

# G. Conclusion

The oil and gas sector is an important and critical industry to this region of the province. The region's recent difficulties in agriculture have resulted in increased dependence on the industry for its economic survival.

Although it is difficult to measure exactly how much impact the proximity to Alberta affects business development in the region, it was clear that the industry businesses strongly prefer an Alberta location. This undoubtedly does harm to this area.

A lot of changes and work is needed to counter the Alberta preference but certainly the process has begun with the province's recent tax changes. But more could be done, especially with the provincial sales tax.

The region should continue to pursue provincial changes but that should not be viewed as the only strategy. Much more could be done through local initiatives to improve business development. The timing is good for marketing the region. Tax changes combined with higher energy prices provide opportunity that didn't exist in recent years.

# I. Background

## A. The Oil and Gas Industry

High energy prices are expected to result in expansion of oil and gas activity in the region. However, provincial issues may be limiting that expansion in Saskatchewan.

Oil and Gas production is a unique industry. Marketing (for the primary producers) is not the same driver that it is in most businesses. Prices are set internationally and the industry is comparatively mobile. A few large international primary producers dominate the industry.

The industry has a number of locations to choose from when apportioning capital, equipment and labour. The relatively mobile nature allows the business to focus development decisions based on production potential and local circumstances, including taxes and other government related issues.

> *"Growth in Saskatchewan's exploration and development activity depends on attracting capital that is inherently internationally mobile. Investment decisions are sensitive to the cost structure impact of fiscal regimes and will gravitate toward those that are most economically attractive."*[1]

This is an important consideration for the oil companies when deciding whether to explore and drill in this region of Saskatchewan. Also, there is now considerable capital and other resources directed to the Alberta tar sands developments.

Saskatchewan has a lot of national and international competition for attracting oil and gas development, but (of course) Alberta is the most obvious by both location and it's massive oil and gas reserves.

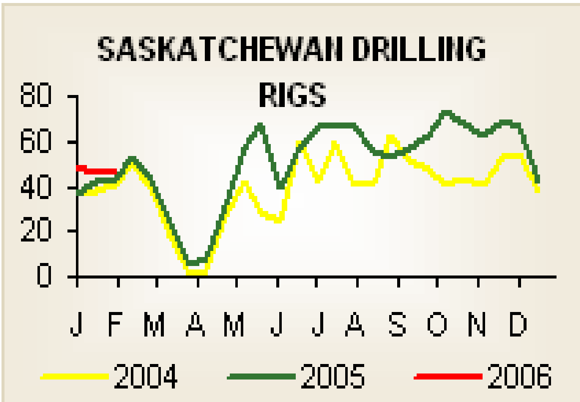
Recent spikes in energy prices have created expectations that massive new developments would be taking place. This has resulted in many rumors of new developments (and possibly even investment decisions) throughout the region.

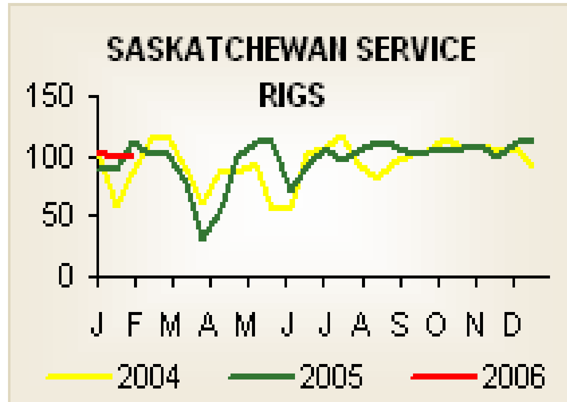
That development is not happening. Even if the producers wanted to do massive exploration and new developments, the industry is limited by the availability of equipment and labour to proceed much beyond current levels. The number of drilling rigs (alone) is a major limiting factor.

The shortage of drilling rigs will probably continue for some time, as manufacturers are not able to meet demands. One manufacturer reported that they are now booking orders into mid 2007.

[1] Canadian Association of Petroleum Producers "Tax Competitiveness Measures" June, 2005

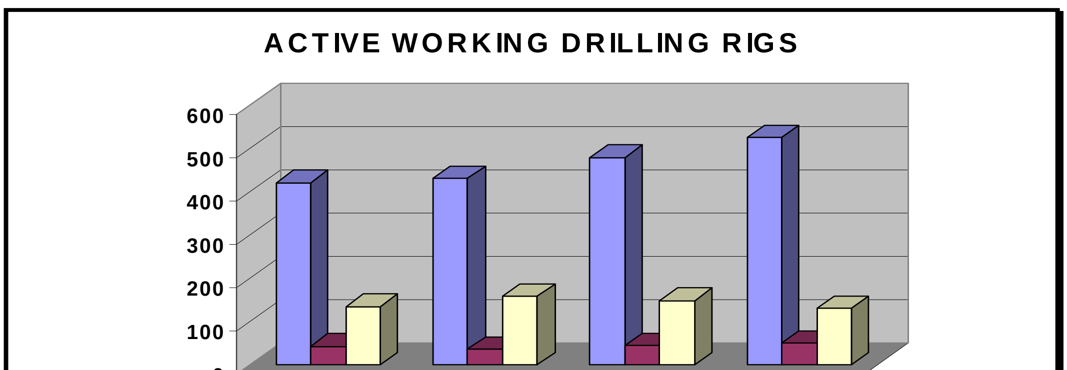
The following charts from *Nickle's Energy Group* show a comparison of the number of service rigs and active drilling rigs for the past three years.




Source: Nickle's Energy Group

The following chart shows the number of active drilling rigs at a point in time. In this case the comparison was made using Jan/Feb averages for each year. As depicted in the chart the trend shows an overall increase in all provinces with a modest overall increase in Saskatchewan.




| | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| AB | 421 | 430 | 479 | 524 |
| SK | 43 | 36 | 44 | 50 |
| BC | 135 | 158 | 149 | 130 |

Source: Canadian Association of Oilwell Drilling Contractors (CAODC)

As demonstrated in the above charts the activity level of drilling in Saskatchewan does not indicate any real increase. Although comments from industry interviews indicated that there are certainly signs of increased activity in both exploration and the renewed interest in older and lower production wells.

No massive developments are happening but virtually all industry businesses are very busy and many are limited by labour and equipment rather than the availability of work.

## B. Service and Supply Sector

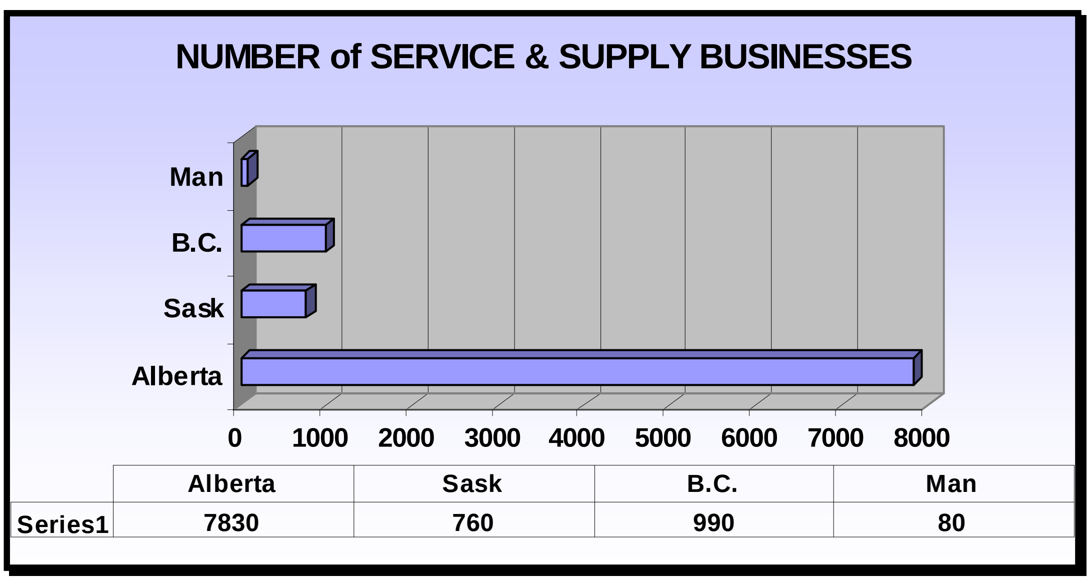
The activity in oil and gas is dependent on the decisions made by the primary producers. Once activity takes place the industry generates considerable economic activity for those businesses that make up the service and supply sector.

This sector includes a large variety of suppliers, contractors, and sub-contractors. Service and supply companies naturally follow the primary producers' activities either contracting with the producers or as part of the broader infrastructure of the industry in producing regions.

Most of the oil and gas businesses presently located in Saskatchewan fall within the service and supply sector and locate near the primary production areas.

The Canadian Oilfield Service and Supply Directory (2005-06) provides an extensive listing of virtually all businesses serving the oil and gas industry. That directory lists over 1300 business categories/products that are primary, secondary or tertiary contractors or suppliers to the industry.

The following chart shows the number of businesses by province as listed in the service and supply directory:




Source: Canadian Oilfield Service and Supply Directory 2005/06

The number of service and supply businesses located in Saskatchewan is small relative to the amount of oil and gas activity. Of approximately 15,000 individual listings in the Canadian directory, only about 5% are located in Saskatchewan. This is probably less than half the numbers expected based on Saskatchewan's oil and gas production.

# II. Examining Industry Barriers

A random sample of industry and industry-related representatives were interviewed to identify those issues that are viewed as barriers/advantages to operating in the REDA partnership region vs. Alberta locations.

A total of 25 interviews were conducted with representatives of oil and gas businesses and organizations. Fourteen of these were with oil and gas related business operators who are presently active and have experience operating on both sides of the Saskatchewan/Alberta border.

Most of these interviews were conducted prior to the tax changes announced in the recent Saskatchewan government budget.

In addition, 19 interviews were conducted with representatives of other industry organizations and governments that work closely with the industry.

## A. General Comments

There is a fairly strong perception in the industry that Saskatchewan is not friendly to business development. This was obvious in nearly all interviews. With only one exception all those interviewed felt that Saskatchewan was a ‘less friendly’ location for business.

When questioned further about this issue a variety of explanations were heard including specifics on the differences. But one common comment was that Saskatchewan has a history of being harder on business with higher royalties, taxes in general, and more pro-union labour legislation. (Some even commented on the thirty year-old issue of ‘taking over’ potash mines.)

One operator, who had been employed by a major U.S. oil company, said that the company head office viewed Saskatchewan as ‘red’ along with other less desirable communist and problem locations around the world.

While this comment represented a more extreme position it does serve to indicate how a negative perception of the province can evolve within the industry. Whether the negative views are justified or not it is certainly an indication of a major obstacle to attracting more industry to operate from Saskatchewan.

There were some positive comments made about Saskatchewan’s attempts in recent years to improve the royalty and tax environment for the industry. Reduced royalty rates, incentives, and setting up the Business Tax Review Committee were viewed as an indication of interest by the government to become more competitive.

## B. Impact of Budget Changes

The recent changes in the provincial budget will add to that positive change in image. Presentations by the oil and gas industry made to the business tax review committee proposed changes that were not that far off the changes made in the budget.

The primary issue is the tax regime in Saskatchewan. Individual operators and industry associations all stated that the Saskatchewan taxes are a major deterrent to both locating and doing business in the province. The following table demonstrates the differences compared to Alberta and other western provinces prior to the recent budget:

**TAX RATES PRIOR TO 2006 BUDGETS**

| | BC | AB | SK | MB |
|---|---|---|---|---|
| **Corporate Capital Tax** | **0.0** | **0.0** | **0.6%** | **0.5%** |
| **Corporate Income Tax** | **12.0%** | **11.5%** | **17.0%** | **15.0%** |
| **Provincial Sales Tax** | **7.0%** | **0.0** | **7.0%** | **7.0%** |
| **Labour-Based Taxes** | **Yes** | **Yes** | **None** | **Yes** |
| **Fuel Tax** | **14.5** | **9.0** | **15.0** | **11.5** |
| **Insurance Taxes** | **2-4.4%** | **2-3%** | **3-4%** | **2.3%** |

*Source: Government of Saskatchewan, Finance; 'Small Explorer' (SEPAC); Business Tax Review Committee, Final Report*

*In addition to the Corporate Capital Tax, Saskatchewan has a resource tax surcharge. Larger producers are charged the greater of 3.6% of resource sales and the .6%.*

*Information was not provided on the Alberta labour-based taxes. It is assumed that this represents the common method of payment of employee's medical taxes which employers only pay at their option.*

Changes were made to tax rates in both Saskatchewan and Alberta. The budget changes in the two provinces result in a much better competitive position for Saskatchewan, especially for those larger businesses impacted by the regular corporate tax and capital tax rates.

**CORPORATE TAX RATES BEFORE AND AFTER 2006 BUDGETS**

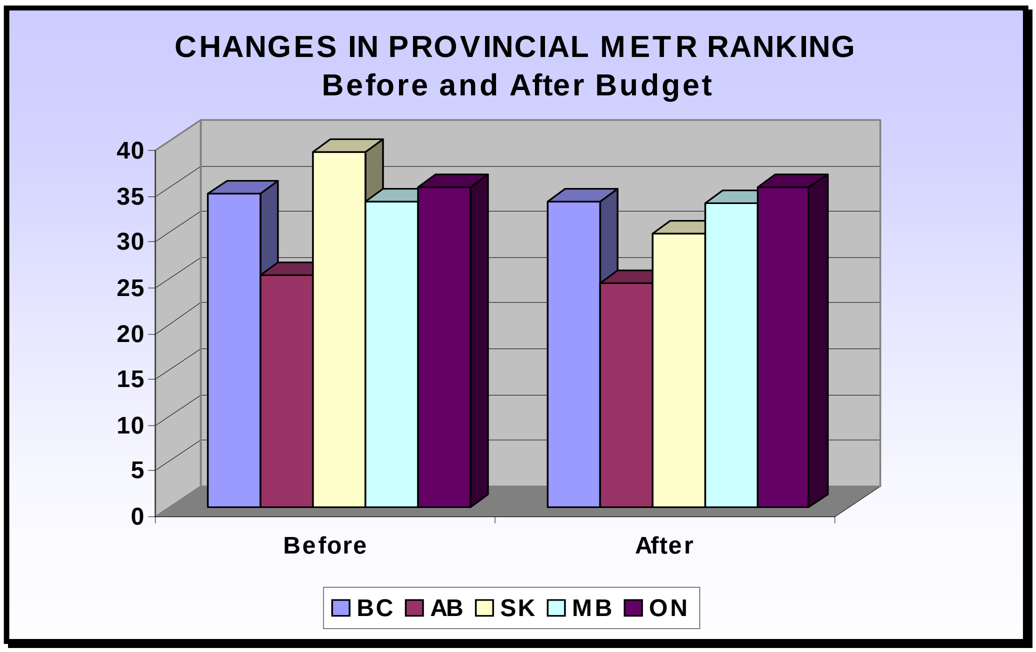
| | Before | | After | |
|---|---|---|---|---|
| | AB | SK | AB | SK |
| **Corporate Capital Tax** | 0.0 | 0.6 | 0.0 | 0.6* |
| **Corporate Income Tax** | 11.5 | 17.0 | 10.0 | 12.0** |

**The capital tax will be reduced to zero over the next two years. However, it will not be charged on any new investments during that period.*
*** Will be reduced to this level over the next two years.*

## *Saskatchewan's Competitive Tax Ranking*

The Saskatchewan tax changes will result in a significant improvement to the province's competitive position relative to other provinces. The overall rating of tax regimes in Canada is measured by the Marginal Effective Tax Rates (METRs). Prior to the budget changes Saskatchewan had the highest METR rating of all provinces west of Quebec.

The following chart shows the impact of the recent tax reductions on the METR tax levels compared to other provinces. Saskatchewan has gone from a 38.9% METR tax level to 30.0% after the changes take effect.




*Source: Finance Canada*
*Note: The impact of 2006 changes in tax rates for Alberta, BC and Manitoba have been estimated to reflect the relative change.*

Saskatchewan goes from being the highest taxed to being the second lowest next to Alberta.

# C. The Issues

Because the government budget changes happened part way through the review process many of the comments heard from industry prior to the budget would no longer be valid. But these comments are still valuable to help determine what has prevented business location. Also, much of the review is focused on those service and supply businesses that do not directly benefit from the changes made.

The following issues are listed in order of priority based on which issues the interviewees considered most problematic and the frequency that the issue was raised by the industry. The primary issues came up in almost all interviews.

| PRIMARY ISSUES | SECONDARY ISSUES |
|---|---|
| 1. PROVINCIAL SALES TAX (PST) | 5. PROVINCIAL / MUNICIPAL ROADS |
| 2. ROYALTIES | 6. MUNICIPAL TAX RATES |
| 3. CORPORATE CAPITAL TAX | 7. PROVINCIAL LABOUR LAWS |
| 4. PROVINCIAL INCOME TAXES | 8. REGULATIONS |

## 1. Provincial Sales Tax (PST)

This was the number one issue raised by industry as impeding business location in western Saskatchewan vs. Alberta. It impacts virtually all oil and gas related businesses.

Nearly half of the interviewees raised the provincial sales tax as the number one issue that would hamper development/location on the Saskatchewan side of the border. The addition of 7% on certain costs serves as a strong deterrent to operating in Saskatchewan, especially if there are alternatives on the Alberta side of the border.

Possibly the largest impact of the PST is at the most critical time, when a major investment is made to start or expand a business. This is when the business is making the location decision and usually the time when added costs mean the most.

Smaller operators often need extensive financing when making a major capital investment. The amount of equity required (as a percentage of total capital) for the start-up can increase considerably when PST is added to the capital costs.

As one business operator commented "*The PST on ongoing operations is annoying and does add to costs but just imagine the impact when making major equipment* *and other purchases. The added PST cost can easily result in a decision to locate in Alberta, even if more of the work is in Saskatchewan."*

There are also issues regarding the 'valuation of assets' entering the province. For example, if equipment were purchased at 'fire sale' prices and moved into the province it could be subject to sales tax that adds far more than 7% to the cost of the items.

Oil industry associations have called for changes to the PST. In submissions to the Saskatchewan government and the Business Tax Review Committee:

- The 'Canadian Association of Petroleum Producers' have recommended that the province; "*Harmonize the Provincial Sales Tax with the federal Goods and Services Tax.* Or, as an alternative. "…*adopt a PST exemption for production machinery and equipment similar to that which was introduced by British Columbia…"*[2]

- The 'Small Explorers and Producers Association of Canada' called for similar changes including a recommendation to give the resources sector similar advantages offered to manufacturing and processing.[3]

The final report of the Saskatchewan Business Tax Review Committee recommended that the PST be reduced to 5% and harmonized with the GST for an effective rate of 12%.

Despite these recommendations no changes were made in the recent provincial budget related to the PST. (*There is political speculation that such a change would impact all taxpayers and may warrant more consideration next year when an election is expected.)*

There are some incentives intended to encourage activity by primary producers. There are exemptions (rebates) of PST on expenditure for certain "developmental" oil and gas activities including drilling and service rigs and related items. It also exempts mobile equipment such as vehicles used for seismic exploration.

These exemptions have a positive influence on primary activity and could result in more work for service businesses. But that probably has little impact on the location decisions of the service and supply operators. They do not qualify for any exemptions and can chose to operate out of Alberta.

Overall the PST is very much a hated tax in this region. Not only were comments heard relative to the added business costs, other comments were made about the overall cost of living for employees associated with this tax.

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[2] Saskatchewan Business Tax Review presentation, June 2005
[3] '*Small Explorer'(SEPAC)* Volume 19, Issue 6, pp. 4

The government's decision not to address the PST issue in the budget was unfortunate relative to the unique circumstances surrounding business development disparities in this region. It is certainly the number one (tangible) obstacle to development.

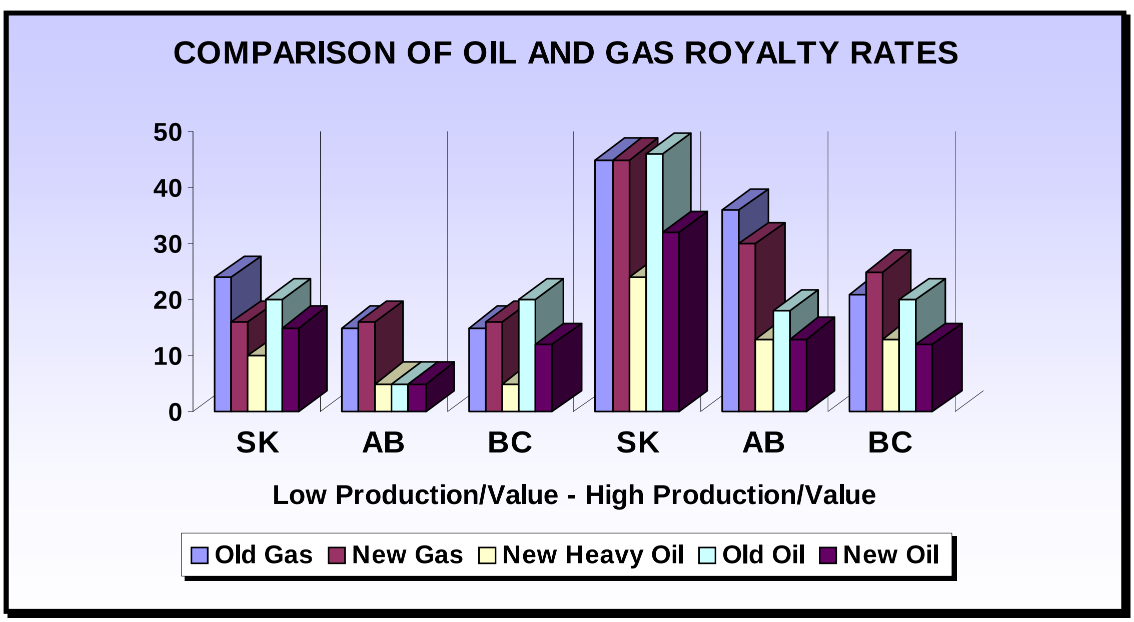
## 2. Royalties

Royalty rates were given by most industry representatives as the second most common impediment to Saskatchewan oil and gas development.

Saskatchewan has higher oil and gas royalties than the other provinces. Even after the changes made in 2002, the rates are still not competitive with Alberta and British Columbia.

Royalties are highly complex with numerous variables related to type of wells; old or new wells; amount of production from the well; value of the product; and a variety of incentives for enhanced recovery and other special production. This can be further complicated by certain tax incentives and other factors. But all sources indicate that Saskatchewan has the highest overall royalties.

The following chart was developed using rates for most well categories and is only intended to demonstrate relative differences. Comparisons are made between the two groupings using the maximums for low value/production wells and high value/production wells.




Source: Oil and Gas Fiscal Regimes 2004 – Alberta Energy

*<u>Note</u>: Saskatchewan government revenue from oil and gas was 22.3% of the industry's net revenue in 2004/05. This compares to 24% in 03/04.*

Some of the interviewees commented on improvements made in recent years (by the Saskatchewan government) with some lower royalty rates and incentives to certain production initiatives.

The ‘Small Explorers and Producers Association of Canada’ (SEPAC) offered some ‘kudos’ to the province for the recent changes that helped achieve a more producer-friendly royalty regime.

## 3. Corporate Capital Tax

Since most of the interviews were conducted with oil and gas operators the Provincial government has announced that this tax will be cut in half and then eliminated over the next two years. The tax will not be charged at all on new investments in the province.

The elimination of this tax will at least remove one hurdle to business development that impacts oil and gas activity. While any tangible results from this change are hard to predict, the strong opposition to this tax may be an indicator that (at least) a major issue has been addressed.

The SEPAC submission to the tax review committee included the following comment; “Eliminate the corporate capital tax and resource surcharge and watch our members double or triple their expenditures in Saskatchewan…” [4]

Positive reaction to the tax changes have been heard from the oil and gas sector. The following comment is from the Canadian Association of Petroleum Producers;

> *"The new tax initiatives show good faith by the Saskatchewan government that business expansion is valued. These measures enhance Saskatchewan's competitive position and I would expect to see substantial new investment as a result of the changes."*[5]

The Corporate Capital Tax was charged on those businesses having “paid-up capital” in excess of $10 Million.[6] For out-of-province businesses the amount was apportioned to that part of the operation located in the province. Capital taxes were .6%.

Resource companies were also subject to a surcharge based on the greater of 3.6% of resource sales or .6%. Energy trusts were not exempt.

Interviewees nearly all made some reference to this tax as one that limited the involvement of medium and larger oil companies in the province. While it wouldn’t impact small operations directly, most of them are dependent on the developments of the larger operators for their business.

[4] IBID
[5] Anthony Marino, Canadian Association of Petroleum Producers
[6] Paid-up capital includes; paid capital, long-term debt, and all retained earnings

This tax was viewed by some as probably 'the' major impediment to location of larger businesses into the province. While income taxes are a big issue, at least they are only charged as a percentage of profit. Capital tax becomes an expense that could actually put an operation into a loss position.

It will be interesting to see if primary producers increase investment and activity as a result of this tax change. Any increase will certainly benefit this region.

## 4. Provincial Income Taxes

The recent and quite significant reduction in corporate and small business income tax rates should help improve the provincial image for investment and location by this sector. The income-tax rates were certainly a large part of the list of issues that impedes development in this region.

### a. Corporate Income Tax

As shown in the following table Saskatchewan is now more competitive with other provinces. Increasing the threshold for small business income tax has also resulted in a tax advantage in one of the taxable ranges.

**Combined Federal/Provincial Corporate Income Tax Rates**

| INCOME | BC | AB | SK | MB | ON |
|---|---|---|---|---|---|
| Up to $300k | 16.5% | 15.0% | 17.0% | 15.0% | 17.5% |
| $300-$400k | 23.5% | 22.0% | 24.0% | 22.0% | 24.5% |
| $400-$500k | 31.0% | 29.0% | 24.0% | 32.0% | 33.0% |
| Over $500k | 31.0% | 29.0% | 31.0% | 32.0% | 33.0% |

The reduction in the corporate income tax rate will ultimately result in a 2% differential compared to Alberta. This is a vast improvement from the 5.5% higher rate previously paid in Saskatchewan.

Income tax rates were mentioned in most 'lists' of issues by those interviewed. Also, industry submissions to the tax review committee included the income tax levels as an impediment.

The tax levels for business in Saskatchewan were considerably higher than Alberta and did have an impact on location decisions. Comments were also made about personal levels that impact both business owners and employees.

*One oil company did an assessment of taxes (and some other items) before moving employees from rural Alberta to rural Saskatchewan. They found that they needed to add about 10% to employees' pay to assure the employees the same (net) income that they had in Alberta.*

SEPAC's presentation to the tax review committee called for a reduction in corporate income tax to Alberta levels plus a similar reduction in small business tax to Alberta levels.

The Canadian Association of Petroleum Producers recommended a reduction of corporate income taxes to 14%. They also suggested "…bold measures to attract and diversify (the) economy – e.g. eliminate taxes on income and only tax consumption".

### b. Small Business Income Tax

The small business tax rate was not raised specifically by those interviewed but was included in general comments about income tax levels on business. Industry has called for an increase in the threshold limits to levels used in Alberta.

The threshold for small business tax rates was increased to $500k from $300k in the recent budget. The following table compares provinces after the recent changes:

**Tax Rates and Thresholds on Small Business Income**

| | BC | AB | SK | MB | ON |
|---|---|---|---|---|---|
| Rates | 4.5% | 3.0% | 5.0% | 3.0% | 5.5% |
| Thresholds | $400,000 | $400,000 | $500,000 | $400,000 | $400,000 |

## 5. Other Issues

A mix of other issues were raised by the industry representatives including; provincial and municipal roads, provincial labour laws, property tax levels, and various regulations and services.

### a. Provincial and Municipal Roads

Roads are critical to the oil and gas industry. The quality of provincial and municipal roads can impact the cost of operations and the accessibility to resources. Nearly half of the interviewees commented on roads as an issue.

Industry representatives consider Saskatchewan's roads as quite inferior when compared to Alberta. Representatives emphasized the problems with the provincial roads that are not well maintained and lack capability for the type of industry traffic needed for development.

The industry feels that the relatively high taxes and royalties generated for the province should warrant a provincial investment in infrastructure that encourages further industry development.

There was less complaint about municipal road issues but that seemed to be part of a general positive image the municipal governments have with the industry.

Positive comments were made about the communication and co-operation between the industry and most of the municipalities. However, there are issues that may impede some development, especially in marginal production areas. This is more of an issue in the heavy oil producing regions but could impact any area.

The heavy oil is not transported by pipeline. This means that all of the product must be hauled by truck, resulting in many problems and added costs to both the industry and municipal governments.

Municipal governments can have difficulty financing the costs associated with oil and gas development where the potential may be marginal. The industry often shares in the road costs but this would also be a factor in deciding on new or expanded developments. If these developments do not proceed then the province is forgoing revenues that could be used to offset some of the road costs.

### b. Municipal Taxes

The primary issue raised about municipal tax rates related to the method used in Saskatchewan for the education tax collection.

This issue is currently a hot item in the province and is being addressed by the municipal governments.

### c. Provincial Labour Laws

Labour legislation was not raised as a major issue but some comments were made about Saskatchewan's 'labour friendly' atmosphere that can impede operations in the province compared to other jurisdictions.

### d. Regulations

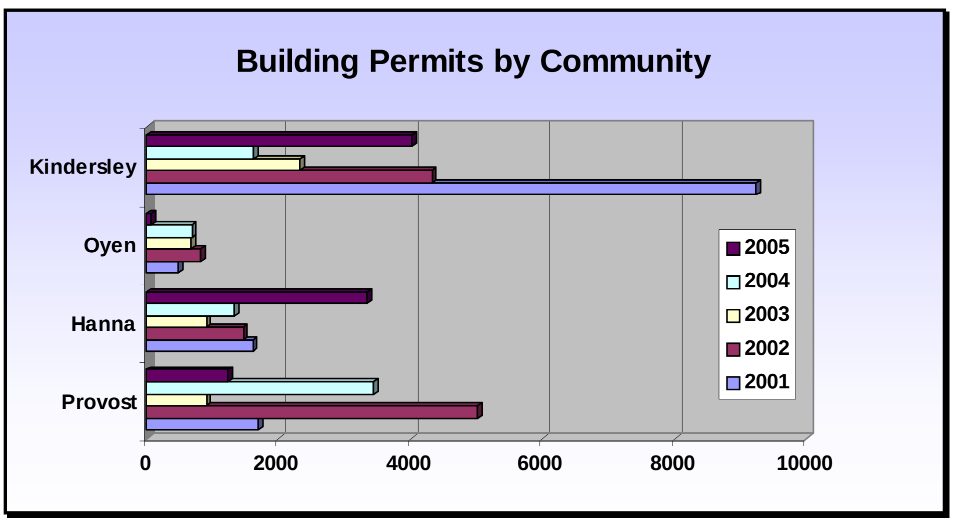
Few comments were made about the provincial regulations impacting the industry. Comments that were made were not consistent regarding any specific regulatory issues.

*One interesting comment was that Saskatchewan does not have strong enough regulations regarding well closures. Lack of information on the conditions of the well* *makes it difficult for future buyers to assess the property before investing. It was suggested that the 'tougher' regulations in Alberta provide comfort to future investors.*

A review of Saskatchewan regulations indicates that there are a number of departments requiring information before certain actions are taken on development. The industry seems to be familiar with most regulations but do encounter some issues. Only a couple comments were made regarding regulations.

One person suggested some streamlining of information and services would be valuable and welcomed. The example was given of an Alberta service where an 800 number can be called anytime from the field to check before excavating.

# III. Northwest Region

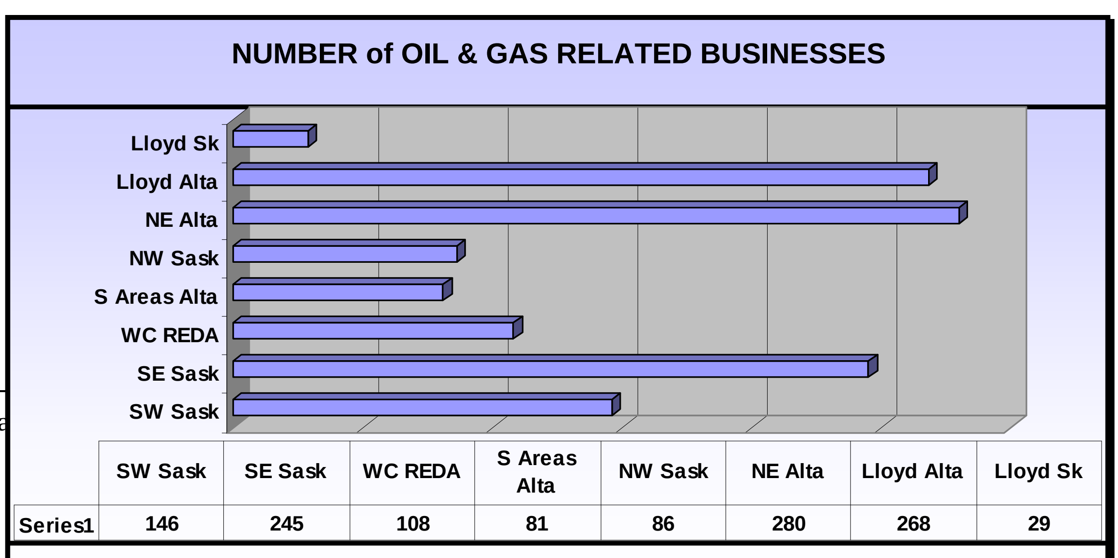


# A. Industry Activity

It has been suggested that communities in the northwestern region of Saskatchewan do not appropriately benefit from the oil and gas development in this area.

The perception is that the proximity to Alberta, with it's lower taxes and royalties, results in a lower than expected number of businesses locating in Saskatchewan communities. Many of the oil and gas businesses will locate on the Alberta side of the border and do work into the Saskatchewan oil and gas fields.

To determine a comparison of the oil and gas related business locations a chart was constructed using information from the directory[7] and community information. Comparisons were made between producing regions Saskatchewan and Alberta.




[7] Ca

*Source: Canadian Oilfield Service and Supply Directory, 2005/06*

*The Alberta Special Areas (Alta SA) region of Alberta includes three regions immediately adjacent to the West Central REDA region.*

The business activity in Lloydminster is a dramatic example of a suggested Alberta location preference. Similar results were noted for the neighboring communities of Macklin Saskatchewan and Provost Alberta. Macklin has about a dozen oil and gas businesses while Provost lists seventy.

It was noted in reviewing indicators of business activity and growth that the smaller Alberta communities are not necessarily faring better than those in Saskatchewan. But the strong Alberta location preference would suggest that increases in activity by primary producers in the general area would probably be of more benefit to Alberta communities.

It was obvious from the industry comments that the primary reasons for location decisions are not within the control of the Saskatchewan communities. But there was an objective to compare other issues that may provide some advantages to the Saskatchewan locations.

Information was gathered on individual communities in both provinces to compare both operating and living costs. This included information on real estate, taxes, utilities, and any incentives for development.

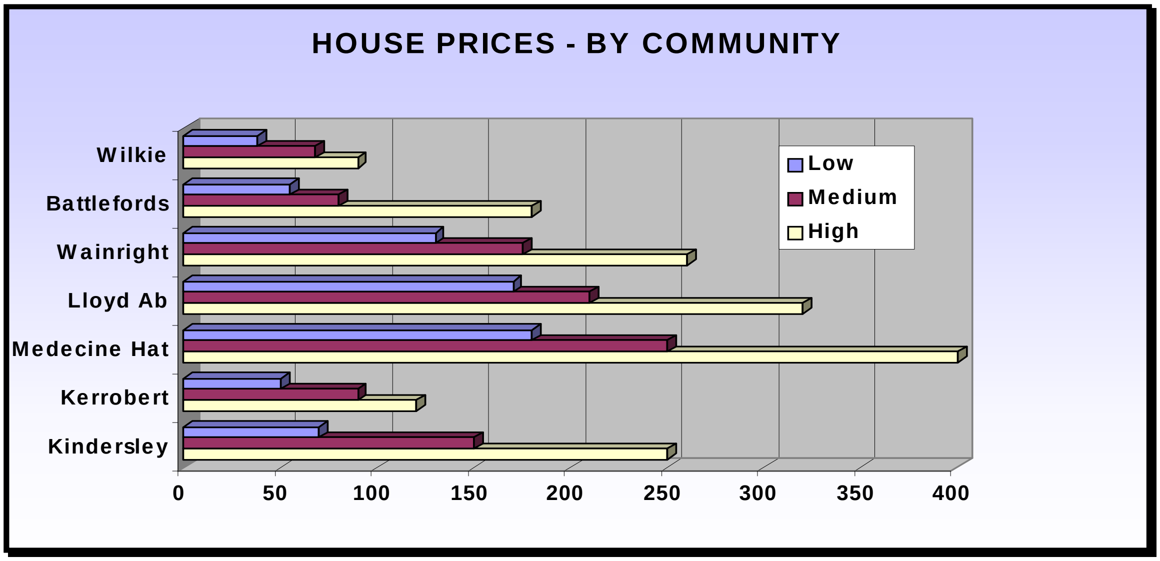
## B. Real Estate Costs

The major item that strongly favors the Saskatchewan communities is the cost of real estate, both commercial and residential.

Commercial and industrial real estate was compared using current property listings for both MLS and individual realtors. No two similar buildings could be found for comparison anywhere in the regions of both provinces. Part of the problem was the lack of industrial property available in Alberta communities. Buildings conducive to this sector are in short supply but those that are available appear expensive based on condition and location.

The best opportunity for comparison was the listings for residential real estate. Under most community circumstances overall real estate values for commercial and residential properties rise and fall together. They may change at different rates but the relative comparison of cost between communities is similar.

The following chart was compiled from a review of properties listed for sale on MLS combined with individual realtor listings.




*Some smaller communities could not be used as the limited number of available houses does not provide enough data to compare.*

*The prices used are somewhat conservative as the standard used was a basic three-bedroom bungalow. Those listed at the low end are mostly much older houses and may include the 'fixer uppers'.*

Communities in Saskatchewan hold a major advantage when it comes to real estate costs. This can be especially appealing to both the business operator and employees.

As the type of home used for comparison was a fairly conservative bungalow, it does not reflect some of the large differences in more 'executive level' houses. These were not always available in smaller communities for the comparison but there were some listings in Alberta cities where costs range up to a million dollars.

## C. Taxes and Utilities

Most of the tax and utility rate issues were found to be too difficult to compare. There are too many individual community differences, even within the same province or area.

One community may have lower tax rates but another community offers a tax holiday for new construction. Some towns offer breaks on commercial property, such as the Kerrobert industrial park where properties are available at almost no land cost. Also, most communities are prepared to consider some form of incentive if the 'right business comes along'.

Utility rates for a smaller business or residence are not significantly different whether located in Saskatchewan or Alberta. Overall utility costs have more to do with the age and nature of construction of available properties than the rate levels.

The one property tax issue that provides a disadvantage for regional communities, included in the previous section, is the Saskatchewan method for collecting education taxes. This remains another issue that is not within communities' control.

With the exception of the education tax issue the other tax and utility costs would not have much impact on location decisions. Businesses making location decisions will not be influenced a lot by these cost items unless they are exceptionally large users of utilities. Even then, rates can be subject to negotiation.

## D. Comments

The heavy oil region of northwest Saskatchewan is known to have some of the best long-term energy reserves in the province. Exploiting that opportunity to benefit the region's communities and residents should be given a high priority by the organization and member communities.

Communities have opportunity to promote more business location. The disproportionate number of businesses operating from Alberta would suggest that some must be paying a price in travel and other inconveniences to maintain that location.

The availability and cost of real estate in some communities should be strongly promoted. Other community cost issues should not be a factor.

# IV. Industry Information / Tracking System

An important role for any economic development organization is that it is informed on any activities or developments having potential to impact the economic well-being of its members. It is possibly the most important role for the organization.

Tracking oil and gas development in this region is useful for planning economic development strategies. The industry is a critical part of the economy in much of the Alliance region. Any developments/changes need to be known to the organization and to business and investors in the area.

Many rumors circulate about this industry. That is partly the nature of the business but it can get exaggerated, especially in those areas near the oil patch where communities are hopeful of new economic activity. It is those communities that will benefit the most from this initiative.

Those REDA members located in oil producing areas are already well informed on industry developments in their area. But they can still benefit from a bigger picture view of the region and any actions taken by the Alliance as a result of having timely information.

Once there is any geographical movement of oil and gas into undeveloped areas, the REDA and communities in that area should take the opportunity to initiate promotion and other activities to attract business activity and location.

# A. Information Sources

There are extensive information sources for this industry. Basic information on activities is readily available.

The regulatory process for oil and gas exploration and development requires a variety of approvals, permits and licenses. Individual municipalities are usually aware of activities in their respective regions either by formal procedure or simply word of mouth. The provincial government tracks drilling and production activities.

The first indicator of activity usually involves land agents (‘land men’) and/or land sales by the province. The land agents acquire lease rights from private owners of mineral rights and the province offers its holdings through regular auction sales.

When land agents are active in a region the RM offices usually hear about it from taxpayers. Provincial land sale information is public and available on line. (see appendix samples)

Seismic information is collected either on speculation or by request for land sales and oil company interests. Municipal offices are aware of seismic work in their region. The province also auctions offerings for exploration of its holdings.

The provincial government keeps extensive records and maps depicting drilling and other activities within their respective regions. (Samples are included in the report appendix) This information is tracked as developments occur and has moved from physical mapping to on-line tracking. Improvements are being made to the system and plans are to have a private company involved in maintaining the upgraded site.

Private sources of information are available either on-line or through memberships. (One example is the Nickle’s Rig Locator Service that can be searched for operating rigs by specific location.) Oil and gas industry associations are very active. They maintain impressive up-to-date information on all the new issues and developments.

While much of the detail from industry is not necessary for tracking purposes. There is value in monitoring some of their web sites to be aware of developments and current issues that may present opportunity or require some action or response from the REDA.

# B. Proposed Action Plan

It is suggested that the REDA begin by developing a system that is confined to tracking the indicators of interest in undeveloped areas. This could begin with the provincial exploration and land sale reports and eventually incorporate municipal reporting.

A complete tracking system will need to incorporate the primary sources of information with a priority on municipal cooperation and provincial government sources.

The following actions are required to develop the long-term system:

**1. Determine priorities for information**

- Consultation with REDA members is needed to determine what information communities view as a priority for their region.
- Decide which information items are needed for the whole Alliance region.
- Prioritize specific information items by area to accommodate the differing information needs.
- Determine the region to be tracked including other REDAs east and north of the Alliance region. Pursue partnerships with affected REDAs.

**2. Access Rural Municipalities' Cooperation**

- Meet with all RMs to encourage participation.
- Determine information needs for each RM to offer information exchange.
- Establish a routine reporting system including timeframes and information to be collected from and for RMs.

**3. Review industry web sites**

- Search industry sites to prioritize which sites provide information needed for the tracking system.
- Locate quality sources for general industry information that assists the REDA to monitor overall issues related to this region.

**4. Design a mapping program**

- Contract the development of a mapping program that will accommodate the tracking system.

**5. Collect land sale results**

- Make arrangements with the province to receive information on exploration permits and land sale results.
- Pursue opportunity to receive information by designated region.

**6. Monitor provincial maps**

- Develop a systematic approach to update activity maps from the provincial site.
- Monitor and incorporate changes at least quarterly.

**7. Monitor production**

- Arrange with the province to obtain regular oil and gas production results.
- Organize and map results by RM.

It is suggested that the REDA Alliance partnership assign the primary responsibility for the oil and gas sector to one individual. That person can combine any sector activities with managing the ongoing information system.

# V. Development Strategy Alternatives

## A. Overview

There are three primary components that should guide the regional strategy.

1. Addressing government and other obstacles to offer a more ‘business friendly’ atmosphere;
2. Tracking and monitoring new oil and gas developments that improve the geographical location further east of Alberta; and
3. Promotion of local advantages.

The assignment began with a priority placed on the provincial differences between Alberta and Saskatchewan that were perceived to impede developments in the region.

Examination of the issues resulted in the conclusion that provincial differences, especially tax and royalty rates, were in fact a major impediment to developments. The views in the industry are quite negative about doing business in Saskatchewan.

It is difficult to measure the impacts that the recent government tax changes will have but there is little doubt that some of the negative obstacles have been (at least) reduced. The years of negative image will be hard to overcome and whether the changes can result in any immediate development in the region is uncertain.

The REDA needs to monitor any progress by tracking developments with an eye on any activities suggesting improvements in primary producer investment. This should be one of the first signs that tax changes are having any impact.

Industry may not be waiting in anticipation of changes so they can locate in the province. At this point the changes are probably not well known and many may not care.

But any new industry plans for expansion or smaller start-ups may be more susceptible to consideration of a Saskatchewan location as an alternative. This would suggest that there would be value in promoting location opportunity to the industry.

The following recommendations are made to provide suggested strategies and actions. Decisions will need to be made on which initiatives fit within the organization's resources and capability.

# B. Addressing Issues

## 1. Provincial Government - PST

Lobbying with the provincial government could be difficult in light of recent budget changes. The government may feel it has already made significant improvements and that these changes should result in increased industry activity in the region.

The number one impediment is still the provincial sales tax and that tax was not changed in this budget. There has been some 'political' speculation that the government may make some changes to PST prior to the next election but there is no factual information to support this.

As most of the businesses in this region are part of the service and supply sector they do not benefit directly from most of the tax changes. They are impacted the most by the PST and further growth of this sector will still be restricted by that tax.

The addition of 7% to the cost of equipment for an oil and gas service business can result in a 30-60% increase in start-up equity capital. This becomes a major factor that readily restricts new business location.

There needs to be changes in the PST for this region to reach its full potential. Even a holiday period for new investment and start-ups could be a real benefit to the business activity in the region.

There have been many lobbying efforts over the years from western Saskatchewan communities about the competitive problems caused by the sales tax. But the major emphasis has usually been on retail sales competition. There may be some opportunity to present a case for some specific issues that impede new oil and gas business location and expansion.

The province has set a precedent in it's PST regulations to provide sales tax rebates for some new business developments. Oil and gas exploration and development activities are exempt as are new manufacturing and processing industries. But sales tax relief is not available to most other businesses.

The sales tax incentives provided for exploration and development are intended to expand the industry and benefit all related industry. But it is obvious that the service businesses do not follow with location on the Saskatchewan side of the border.

The differences in service and supply business locations shown in this report indicates that many of those businesses remain in Alberta and are prepared to do the travel to service the northwest region without establishing permanent location in this area.

The tax changes in the recent budget do not target most of the smaller service and supply businesses. They do not pay capital tax and many (if not most) are not large enough to benefit from the income tax changes. They may benefit indirectly by increased activity of larger businesses but they have already demonstrated their ability to service this area from Alberta.

### a. Regional Tax Incentives

The problem in any lobbying effort of this type is that the issues are usually much more complex than anticipated. Providing any special tax incentives by region raises the question of 'where to draw the line'. Communities that fall outside that 'line' will then be faced with similar problems as those being addressed by the proximity to the provincial border. It can simply move the problem further east.

Without fairness to all regions it is unlikely the provincial government would consider regional tax incentives.

### b. Specific Industry Incentives

One alternative is to offer special tax incentives to the industry group that services and supplies the oil and gas sector. But this creates a lot of problems in defining the recipients as well as the reaction of other businesses that do not qualify.

This sector can be difficult to define. While many businesses only serve the oil and gas industry, there are many others that may also do business with a variety of industries. The question would be ‘how to determine if the business qualifies’.

It should be recognized that all special industry incentives result in some negative backlash. Any proposed initiative must weigh these negative reactions against the perceived benefit of the incentive.

Other businesses will argue that they are just as important to the community. Also, those industry businesses already (or recently) established in the region will consider that the government is encouraging new competition.

Government incentives are usually confined to those activities that market outside the region to result in ‘bringing in new dollars’. Service and supply businesses are usually serving local markets and normally do not have the same economic impact. Special tax incentives are provided (partly) to primary and secondary industry because it creates spin-off service business development. The service business benefit is indirect.

Another approach would be to provide some incentive through the primary producers that encourages the use of local services. But this brings up the issue of provincial trade barriers that often prevents this type of incentive.

It may be possible to provide this incentive with municipal government involvement but even then there will be many issues to address. The primary producers may be reluctant to utilize such incentives. They may not want any special influence over who they do business with.

### c. General PST Tax Reduction

The best solution for this region would, of course, be a general reduction in sales taxes that should stimulate economic activity in all business sectors. A lobby from this region should have that as one of its priority objectives even if other solutions are being proposed.

The business tax review committee did make recommendations about the PST in its submission to government and that was the only major recommendation not acted on in the budget. The province may still be giving some consideration to this issue and it follows that any additional lobbying efforts could be productive. Providing additional information and rationale for some reductions may help sway government decisions.

The oil and gas industry presentations to the tax review committee did not include the unique circumstances of the service and supply business locations in western Saskatchewan. Also, most of their emphasis was on the capital and corporate taxes rather than the PST.

If the region were to propose that the PST is still the major impediment to business location then there may be some positive reaction by the province.

Industry that is impacted the most by the PST needs to be part of any lobbying efforts.

## 2. Municipal Governments – Communication / Roads

While the majority of government issues were provincial jurisdiction, some industry comment was made about dealing with the municipal governments and the lack of standards between different municipalities. Most of the comments about municipalities were quite positive but improvements could be made in consistency and road-related issues.

The number of municipalities in the region can result in differences in both the methods of dealing with issues and the decisions that affect the industry. There are some attempts to offer co-ordination between the municipalities but more could be done over a larger region.

Some municipalities have organized regular meetings with industry in an attempt to address issues and help provide some of the needed co-ordination. This initiative may be having positive results and could be one of the reasons for the lack of complaints about municipalities from the industry.

The provincial association's "Clearing the Path" initiative has the potential to provide some of these solutions. In the oil and gas regions it is important that additional emphasis be placed on assuring the industry is consulted regarding this initiative.

Roads are a major issue for oil and gas development. While most of the complaints from the industry were about provincial roads there was still some concern about municipal roads and the need to stay abreast of equipment changes in the industry.

Municipalities can be placed in a difficult situation where they may not receive enough revenue from the oil and gas development (at least in the shorter term) to warrant major expenditures on roads to accommodate that development. Usually the industry shares in the costs for the roads but that isn't always adequate.

There may be some need for more provincial assistance, especially in areas where there is not (yet) a lot of revenue to the municipality from oil and gas. Undeveloped or marginal areas can be ignored by the industry if their investment in roads is too high relative to potential returns. But the province can be the biggest loser in lost royalty revenue.

The case could be made that the province should enhance its support through some form of assistance to these areas, at least until revenues are generated to the municipality.

## 3. Addressing 'Negative Perceptions'

Through the interview process it was apparent that there is a general negative perception in the oil and gas sector about doing business in Saskatchewan. Some of this perception was altered when reductions were made to royalty rates and additional improvement can be expected by the recent tax changes. But perceptions can be long lasting and there needs to be more promotion done to improve the provincial image with this industry.

The industry needs to be well informed of any positive changes to tax rates and other issues viewed as negative by these businesses. One way to improve the image is to demonstrate that communities and regions welcome the industry and are prepared to assist them with any problems or obstacles that prevent development.

### a. Service to the industry

There may be opportunity for governments to show their support to industry development through services to the industry that help overcome problems with governments and shows that the industry is welcome.

Before interviewing industry it was expected that there would be more complaints about municipal governments. But this was not the case. While there were issues they were usually presented together with some positive comment about the ability to address these directly with the RM or, in some cases, at regular meetings between RMs and industry.

While providing so many complaints about the provincial government there was not a single complaint about the government people operating in the field. It was apparent that industry responds well when there is good local communication to deal with problems. It helps to make industry feel welcome and more in control of communicating issues.

Another indication that industry responds well to making their job easier was the positive comments made about some services offered in Alberta. The air ambulance service and the 1-800 number available 24/7 for checking underground infrastructure were given as examples of governments' support to the industry.

Government regulations are usually handled well as far as ensuring their compliance and enforcement. And representatives may actually provide some advocacy services but that is not their stated mandate and can vary from one person/location to another.

Problems faced by the industry in dealing with the different governments could be better addressed both in the region and provincially. There would be some benefit in providing advocacy services to the industry by assuring that there is a single contact point available in the field to help address government-related issues.

One alternative would be for the province to provide a contact person/advocate in the region. This person's mandate would be to help address problems caused by provincial regulations and other factors that create business problems. Services would include 'path-finding' to the right contact people as well as presenting the industry side on issues to various regulators and others.

The objective would be to, at least, provide a 'face' in the region as a single contact person who would become familiar with oil and gas industry development issues and provide some comfort to industry when dealing with the province.

This concept could be enhanced by a partnership between regional municipalities and the province. A single representative assigned to address issues of both governments could be employed through the regional REDAs and given a mandate to assist and ensure smooth operations in oil and gas development and operations.

That person could have an expanded mandate to promote development and opportunities to the industry with an objective to expand benefits to both levels of government.

The unique competitive circumstances faced in this region would make it a natural location for any pilot program of this type.

## C. Tracking

*Recommendations and alternatives are provided in that section of the report.*

## D. Promotion

The timing is right to initiate some promotion activities designed to encourage more oil and gas business development in the region. The provincial tax changes and possible stability of good energy prices provide some opportunity in the market.

This region has some advantages that could be promoted and would go a long way to overcome some of the added expense of businesses locating in the region vs. the neighboring Alberta communities. Real estate costs for both commercial and domestic property is very favorable by comparison. Competition for labour and services is reduced considerably, especially in those areas further from the Alberta border.

### 1. Web Site

An investment made in developing good web sites will have a long-term and increasing value. The rapid increase in the use of the Internet, by both public and business, would suggest that it will become (if not already) the primary source of information used by prospective businesses and individuals considering relocation to a community.

The existing sites in the region do not clearly target oil and gas related business development and location. They are also lacking in readily accessible and up to date information.

A specific site is needed that is designed to target this industry. Linkages can then be added through community, REDA, and other organization sites.

The primary site should provide information on those issues that would be of interest to prospective oil and gas related businesses that are contemplating location in the region. Links would then be established with the other sites in the region and should include existing businesses, especially those that do business with this sector.

Consultation with industry should be undertaken to determine what information would be the most useful to oil and gas businesses. Initially the site could provide already available information that includes;

- Real estate and property information, including housing and industrial
- Any special incentives
- Services and suppliers available in the region to the sector
- Available labour information
- Training facilities and programs for the industry
- Testimonials from existing industry, including newly located businesses
- Sources of financing and any special programs
- Contact person(s) who is readily available to assist
- Other community information related to quality of life in the community and region

Once the site is established it should then be promoted through linkages outside the region and added to publications, news releases, business cards and other communication tools.

## 2. Events

The opportunity to promote the community through attendance at industry events is one of the better ways to specifically target this sector.

There are a variety of oil and gas shows/events that have good representative attendance by oil and gas related businesses. Consideration may be given to participating in this type of event to promote the community. Tourism and community location promotion can be combined at some events through trade show booths and/or sponsorship initiatives at other events.

There may be opportunity to partner with other regions or communities, possibly through the regional tourism organization or other REDAs. There may also be opportunity to link with local industry that may participate in these events.

Locally organized events related to this sector are another opportunity that may include a target group of businesses located elsewhere but do business in this region. Expansion of any local events to include a promotion booth and/or sponsorship events would be useful.

## 3. Community / Region Image or 'Branding'

Branding is used to assist product promotion as part of marketing strategies. It serves to promote a specific image for the product. The communities/region needs to determine what image it wants to portray and then build promotion around that image. The image needs to be differentiated from other similar communities.

The brand should include some reference to business. This region could consider a brand that portrays the combination of positive life-style with business friendly atmosphere.

## 4. General Advertising

General mass advertising can be difficult to target to specific industry prospects. Specific trade publications may be considered if they are affordable. The oil and gas directory certainly has broad distribution and tends to be well used by the industry.

Newspaper and other general promotion could be used to specifically target geographically to communities in eastern Alberta or elsewhere.

## 5. Ambassador Program

There have been some successful programs established by communities and regions that access local residents and businesses to act as 'ambassadors' to promote the community. The intent is to utilize the large number of contacts from outside the region that are encountered by local business and residents.

Information would be provided to potential ambassadors for their use when deemed appropriate. This may be as simple as providing a business card that contains some basic promotion and a contact person or site. Information can be handed out at trade shows and other events or simply given to individuals.

Even a 'designation' emblem added to business cards and literature can be useful in raising attention and some response from recipients.

Results of some programs are quite modest but even the awareness created with local residents can assist promotion for the community.

## 6. Brochures

Brochures continue to be useful as a promotion tool by providing a ready reference for critical information. They are handy to have as handouts and can be readily placed in locations frequented by prospects.

Community brochures can be done to serve a variety of general needs but should include messages about the community as a ‘good place to live and work and do business’. Reference to any appropriate web sites should be highlighted.

### 7. Local Lodging Industry

Local hotels and motels get a lot of business from oil and gas related businesses from Alberta that are doing work in this region.

Many of the prospective businesses most likely to consider location in the region are already doing work in the area. Even employees of these businesses may consider starting their own business to service regional oil and gas fields.

Communicating with the lodging industry would be helpful in establishing contact with these customers. Even placing certain information in those establishments could be productive. Providing information to people in this industry is important.

### 8. Labour Force Development

Strong demands for industry labour is limiting some business expansion in both provinces. Businesses may be influenced on location decisions if it can ease their labour shortage. Initiatives that help enhance labour supply in the region will be viewed positively by the industry.

In-migration promotion that encourages labour to locate in the region should be a part of the promotion objectives. As tools are being developed to promote the region there should be consideration given to prospective labour migrants as a target group.

## Conclusion

The oil and gas sector is an important and critical industry to this region of the province. The region’s recent difficulties in agriculture have resulted in increased dependence on the industry for its economic survival.

Although it is difficult to measure exactly how much impact the proximity to Alberta affects business development in the region, it was clear that the industry businesses strongly prefer an Alberta location. This undoubtedly does harm to this area.

There were no significant surprises or new findings in developing this report but some perceptions were certainly confirmed. The negative image in the industry about doing business in Saskatchewan is quite widespread and the preference for operating in Alberta is almost unanimous.

One encouraging sign was the number of positive comments heard about dealing with the municipalities. Problems are quite common but relationships seem to be quite good. Credit is given to the close on the ground communication between the RMs and the industry.

A lot of changes and work is needed to counter the Alberta preference but certainly the process has started with the province’s recent tax changes. But more could be done, especially with the provincial sales tax and negative provincial image.

The PST has negative impact on most sectors in this region but oil and gas may be the most unique. This is such a mobile industry. Location is not near as critical as for most businesses. And even when business needs to be in the proximity of the oil and gas fields they are still prepared to travel some distance.

The region should continue to pursue provincial changes but that should not be viewed as the only strategy. Much more could be done through local initiatives to improve business development.

It would be naïve to expect that most established businesses would ever consider moving from their Alberta locations to this region. But there should be opportunity to attract some expanding businesses and newer entrepreneurs. Some will see the benefit in serving this region of the market with the advantages of lower real estate and quality lifestyle.

Developing the oil and gas strategy will begin the process. The timing is good for marketing the region. Tax changes combined with higher energy prices provide opportunity that didn’t exist in recent years.

# APPENDIX

## Sample of Provincial Land Sales Tracking

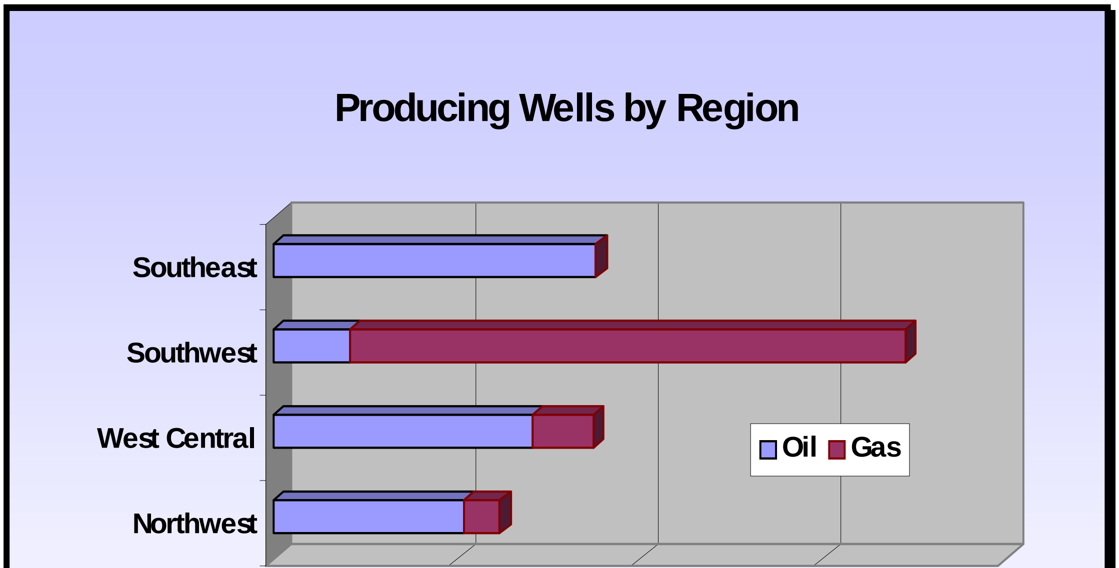
| Type | Date | Legal | Location | Price / Acre |
|---|---|---|---|---|
| **Mineral Rights Lease** | **03/06** | **T49 – R17** | **South of Glaslyn** | **$16.91<br>$33.14** |
| **Mineral Rights Lease** | **03/06** | **T48 – R18** | **North of Jackfish** | **$43.21<br>127.57<br>208.00** |

| | | | | |
|---|---|---|---|---|
| **Mineral Rights Lease** | **03/06** | **T48 – R19** | **Edam Area** | **$245.00<br>512.00<br>1,787.00** |
| | | | | |
| **Exploration License** | **02/06** | **T44 0 R12** | **Hwy 40 – East of Battlefords** | **$20.53** |
| **Exploration License** | **02/06** | **T45 – R12** | **South of Mayfair** | **$7.51** |
| **Exploration License** | **02/06** | **T44 – R13** | **Hwy 40 – East of Battlefords** | **$2.47** |
| **Exploration License** | **02/06** | **T45 – R13** | **NE of Battlefords Near Whitcow** | **$14.82** |
| **Exploration License** | **02/06** | **T42 - R22<br>T43 – R22<br>T42 – R23** | **SW of Cut Knife** | **$143.90** |

**These samples were selected to show:**

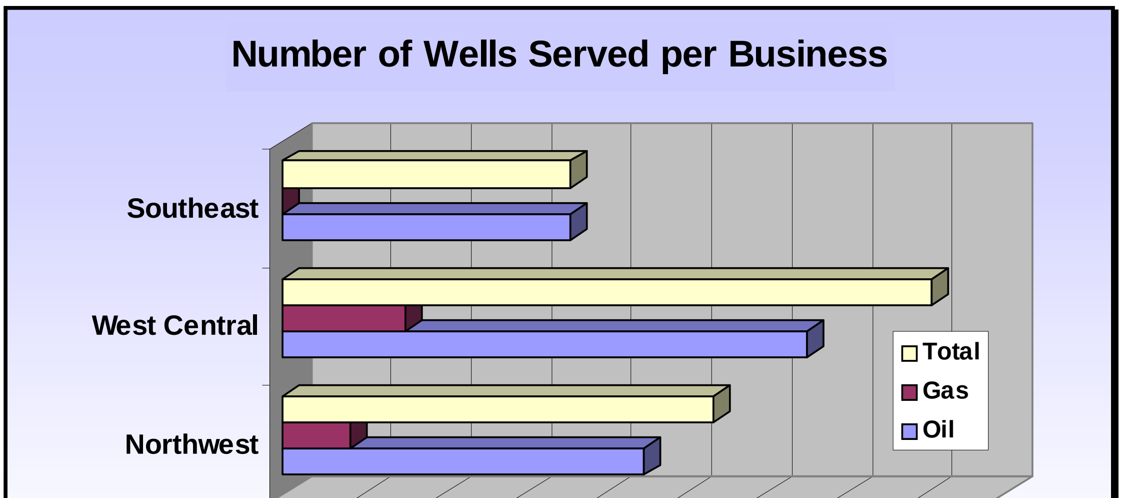
- **Activity/interest level east of the Alliance region**
- **Variance in prices as an indication of interest**
- **Activity and interest north of the Alliance region**

## Number of Oil and Gas Wells – Regional Comparison



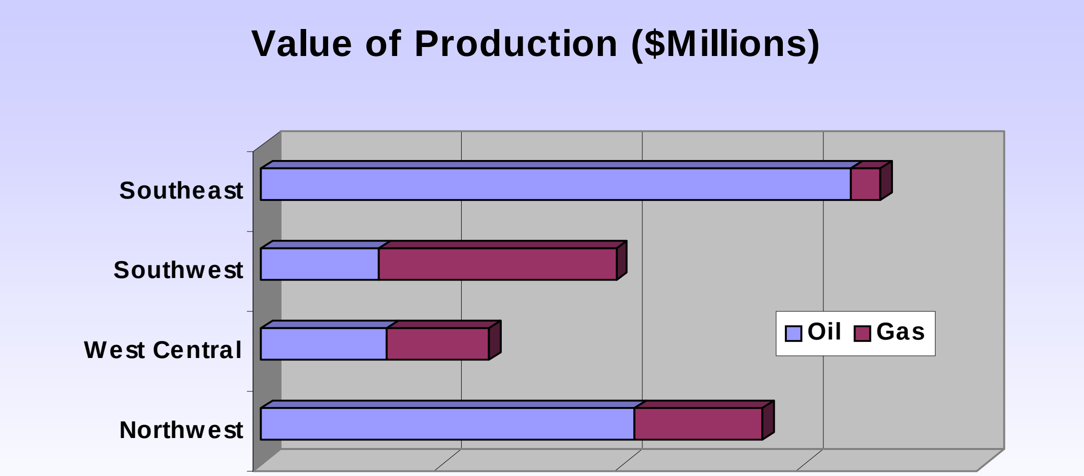

| | Northwest | West Central | Southwest | Southeast |
|---|---|---|---|---|
| Gas | 991 | 1670 | 15214 | 1 |
| Oil | 5195 | 7076 | 2072 | 8813 |

## Ratio of Wells to Service Businesses – Regional Comparison




| | Northwest | West Central | Southeast |
|---|---|---|---|
| Total | 53.79 | 80.98 | 35.97 |
| Gas | 8.61 | 15.46 | 0 |
| Oil | 45.17 | 65.5 | 35.97 |

Oil and Gas Value of Production Comparison




| | Northwest | West Central | Southwest | Southeast |
|---|---|---|---|---|
| Gas | 708 | 569 | 1310 | 163 |
| Oil | 2068 | 691 | 652 | 3259 |