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Crisis & Action Memorandum

Date: May 28, 2020

From: Jim McIntosh P.Eng., Chairman, Ontario Petroleum Institute ("OPI") on behalf of its members

To: Honourable John Yakabuski, Minister of Natural Resources and Forestry ("MNRF"); and

Honourable Rod Phillips, Minister of Finance ("MoF") and Chair of the Ontario Jobs and Recovery Committee

Re: Ontario Oil and Gas Industry Survival - Relief and Restructuring Request

The purpose of this Memorandum is for the OPI to brief the MNRF and the MoF (together the "Ministries") and request that the Ministries take the immediate steps that are requested below. Certain fundamental aspects of the industry must be re-examined and restructured, in order to address the imminent and ongoing challenges, which are threatening the survival of Ontario's oil and gas industry.

This request is being made on behalf of the exploration and production companies (the "Producers") in the oil and gas sector. The proposed restructuring has been needed for months to years, in order to address the maturity of the industry and correct several gaping deficiencies in existing policies and regulation, which continue to worsen year over year as our oil and gas resources continue to deplete. These ongoing declines in production and revenues have been further frustrated by the acute and substantial commodity price declines.

Many of these issues are not new and have been discussed with you and your colleagues previously, some of these issues have also been discussed with various levels of government and other stakeholders. This document is intended as a fulsome but focused summary of the five key challenges which need to be addressed now in a timely manner, to allow our industry to continue to adjust, operate safely and meet our well abandonment obligations for many years to come.

The oil and gas industry is not looking for subsidies and hand-outs. It is deeply willing to work in concert with the Provincial government to find sustainable solutions to the concerns and issues.

Brief Background

North America's first commercial oil was produced in southwestern Ontario in 1858. Several drilling and associated production peaks subsequently occurred from 1895 to 1995. ~27,000 wells are on record in the province; ~1,200 oil wells and ~1,400 natural gas wells are currently active, and are of varying ages and well constructions.

Benefit to Rural Communities: Ontario has benefited from having locally produced fuels and feedstock for many years. Ontario's oil and gas industry currently employs mostly rural workers. In addition to rural job creation, the industry contributes consistently and strongly to local communities, municipalities and the Ontario government through payment of:

- taxes,
- government royalties,
- landowner royalties,
- lease payments;
- locally sourced goods and services from rural supply chains, and
- several other fees.

Ontario's oil and gas is 'greener' and sustainable

In addition to the positive economic impact on rural communities, Ontario-produced oil and natural gas is more environmentally friendly than imported oil and gas for two main reasons:

1. Ontario production is located in immediate proximity to major areas of consumption, reducing emissions, the need for burning transportation fuel gas and increasing local security of supply. The industry is subject to provincial regulation, meeting the expectations of Ontario regulators, where imported fuels escape such production regulation.
2. Ontario oil and gas is produced using conventional hydraulic fracturing methods, which use much less water and have a much smaller carbon footprint than the new unconventional hydraulic fracturing methods used for shale gas exploration or the unconventional extraction techniques used in tar sand production.

Request to Government

There are five main areas of regulatory adjustment, which respectfully require the Ministries' immediate attention and focus, as are summarized below. In addition, the OPI is developing a upstream oil and gas sustainability plan which it would like to submit in the very near future.

1. **Municipal Tax Assessments** need to be permanently restructured for both (a) pipelines and (b) oil and gas manufacturing facilities;
2. **Plugging and Abandonment Works** must be included in the Federal Aid Package for abandonment work on both orphaned and suspended wells, located in Ontario;

3. **Utility Gas Price Adjustments**, requiring approval at the Ontario Energy Board, to recognize the true and fair value of locally produced gas, which should no longer be subject to shadow transportation charges by Enbridge, as local Ontario gas is produced *at market*;
4. **Royalty Restructuring** needed for royalties paid on offshore Lake Erie gas production to the MNRF due to pricing and production declines; and
5. **MNRF as Regulator** – A Consistent ongoing collaborative relationship is needed for the Ontario industry to survive. New, and onerous, interpretations of the Operating Standards need to stop. Timelines for applications and requests need to be transparent with some accountability to deadlines. A collaborative relationship with industry to work through issues instead of laying fines and charges will benefit all parties involved.
6. **2020 Ontario upstream oil and gas sustainability plan** outlining the Ontario oil and gas industry history and economic contributions, as well as highlighting key work that is needed in collaboration with various ministries and departments. To be submitted in near future.

Attached to this document are more detailed discussion papers on each of the five individual issues, some of which have already been shared with government and are at various stages of resolution.

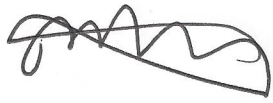
The industry is at a certain stage in its maturity, but this fact is not reflected through the MPAC property taxation on pipelines, outdated royalty regime and inconsistent regulator compliance function. By understanding the challenges facing our industry in each of the five areas identified above, we can work cooperatively together to design and make the required changes, which will ensure the longevity and responsible operatorship in this sector.

The proposed solutions outlined in the discussion papers directly address the issues above; they make common sense, but will require the ongoing commitment and collaboration of both of the Ministries, along with other provincial and federal government agencies. These changes have been needed for years, but the urgency is now paramount due to depressed commodity prices coupled with declining production.

Working together to make the required changes will enable the responsible and timely abandonment of uneconomic wells and reduce the potential provincial liability presented by orphaned wells. We are attempting to pre-emptively address the challenges faced by our industry to avoid further oil and gas company bankruptcies and allow abandonments to happen, over time, in a responsible manner, as they should.

We look forward to further discussion and very much appreciate your time and attention to these important matters.

All of which is respectfully submitted by **Jim McIntosh** on behalf of the **Ontario Petroleum Industry and its members.**

A handwritten signature in black ink, appearing to be 'Jim McIntosh', written over a horizontal line.

Jim McIntosh, P. Eng., Chairman

Ontario Petroleum Institute

- c. Ministers Rickford, Thompson, McNaughton, Yurek
- c. MPPs Barrett, Hardeman, Bouma, Oosterhoff, Bailey, Nicholls