

ALBERTA CARBON LEVY

Impact of Producers, Marketers and Users of Fuel

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ALBERTA CARBON LEVY

- Effective January 1, 2017
- \$20 per tonne of carbon
- Increase to \$30 in 2018
- \$50 by 2022 ?



BASIC STRUCTURE

- Similar to the existing Alberta fuel tax
 - Applies to more fuels
 - Applies to any burning of fuel, including for heat
 - Fuel tax applies only to fuel used for motive purposes



WHAT DOES THE TAX APPLY TO?

- Refined fuels (e.g., gasoline and diesel)
- Natural gas liquids
- Natural gas
- Coal, coke and miscellaneous gases



WHAT DOES IT NOT APPLY TO?

- Crude oil
- Electricity



TAX ON REFINED FUELS

(CENTS PER LITRE)

| Fuel | 2017 | 2018 | Fuel tax |
|-------------------|------|------|----------|
| Gasoline | 4.49 | 6.73 | 13.0 |
| Diesel | 5.35 | 8.03 | 13.0 |
| Aviation gas | 4.98 | 7.47 | 1.5 |
| Aviation jet fuel | 5.17 | 7.75 | 1.5 |
| Locomotive diesel | 5.94 | 8.90 | 5.5 |



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TAX ON REFINED FUELS

(CENTS PER LITRE)

| Fuel | 2017 | 2018 | Fuel tax |
|------------------------|------|------|----------|
| Bunker fuel | 6.36 | 9.55 | 13.0* |
| Kerosene | 5.14 | 7.71 | 13.0* |
| Methanol | 2.18 | 3.26 | 13.0* |
| Naphtha | 4.49 | 6.73 | 13.0* |
| Heating distillate oil | 5.51 | 8.27 | |
| Heavy fuel oil | 6.35 | 9.53 | |



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TAX ON NATURAL GAS LIQUIDS

(CENTS PER LITRE)

| Fuel | 2017 | 2018 | Fuel tax |
|---------------------------|------|------|----------|
| Condensate/ pentanes plus | 3.82 | 5.73 | 13.0* |
| Butane | 3.56 | 5.34 | |
| Propane | 3.08 | 4.62 | 9.4* |
| Ethane | 2.04 | 3.06 | |
| Gas liquids mix | 3.33 | 4.99 | |



TAX ON NATURAL GAS

(DOLLARS PER GJ)

| Fuel | 2017 | 2018 | Fuel tax |
|----------------------|-------|-------|----------|
| Pipeline quality gas | 1.011 | 1.517 | |
| Raw gas | 1.15 | 1.72 | |



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TAX ON COAL AND COKE

(DOLLARS PER TONNE)

| Fuel | 2017 | 2018 | Fuel tax |
|-------------------------|-------|-------|----------|
| Low heat value coal | 35.39 | 53.09 | |
| High heat value coal | 44.37 | 66.56 | |
| Coal coke | 63.59 | 95.39 | |
| Refinery petroleum coke | 63.86 | 95.79 | |
| Upgrader petroleum coke | 58.50 | 87.75 | |



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TAX ON MISCELLANEOUS GASES

(CENTS PER CUBIC METRE)

| Fuel | 2017 | 2018 | Fuel tax |
|---------------|------|------|----------|
| Coke oven gas | 1.40 | 2.10 | |
| Refinery gas | 3.77 | 5.65 | |



WHEN DOES THE TAX APPLY?

- Tax initially charged when fuel is
 - removed or sold from the production and distribution system
 - imported into Alberta for resale or consumption
- Tax remitted to govt. by the “direct remitter” who imported, removed or sold the fuel
- Tax also charged on subsequent transactions
 - Person purchasing for resale keeps tax collected on sale to offset tax paid on purchase
 - Consumer (end user) pays the tax with no offset



TAX DOES NOT APPLY TO

- Transactions within the production and distribution system
 - Including gas trading on a pipeline
- Imports delivered to the production and distribution system
- Exempt transactions



PRODUCTION AND DISTRIBUTION SYSTEM – REFINED PRODUCTS

- Refinery
- Terminal



PRODUCTION AND DISTRIBUTION SYSTEM – NATURAL GAS

- Gas well
- Oil production site
- Gas battery
- Oil battery
- Gas gathering system
- Gas processing facility
- Oil sands processing plant
- Straddle plant
- Transmission pipeline
- Natural gas distribution system



NATURAL GAS DISTRIBUTOR

- Most common direct remitter for natural gas
- Person who measures a recipient's gas consumption for the purpose of billing the person directly or providing a retail dealer with the recipient's billing information
 - Generally when delivered from a natural gas distribution system
- Special registration form



PRODUCTION AND DISTRIBUTION SYSTEM – NATURAL GAS LIQUIDS

- Gas processing facility
- Gas fractionation plant
- Straddle plant
- Liquids pipeline
- Offsite storage facility



COMMON EXEMPTIONS

- Fuel sold or removed for export from Alberta in bulk
 - Evidence of export required
- Sales on or delivered to an Indian reservation
 - Federal or provincial identification card as evidence
- Marked fuel used for farming operations
- Sales to s. 18 exemption licencees
 - Sellers/resellers with significant exempt sales
- Sales to Government of Canada



EXEMPTIONS REQUIRING S.16 EXEMPTION CERTIFICATE

- Fuel used in an oil and gas production process before 2023
- Fuel flared or vented in an oil and gas production process before 2023
- Fuel used in the operation of a specified gas emitter
- Fuel not used to produce heat or energy and used
 - As a raw material in an industrial process, or
 - As a solvent or diluent in the production or transport of crude bitumen or other substances



OIL AND GAS PRODUCTION PROCESSES INCLUDE

- An activity integral to the drilling, completion, workover, or abandonment of a gas or oil well
- An activity integral to the operation of a gas or oil well, gas battery, gas gathering system, compressor station or facility, gas processing facility, gas fractionation plant, straddle plant, oil battery or oil production site (except for thermal oil wells)



EXEMPTION CERTIFICATE (SECTION 16)

- Consumer making certain exempt purchases must apply for and retain an exemption certificate and number issued by Alberta TRA
 - For specific fuels and purpose
- Vendor cannot sell exempt unless purchaser provides certificate
 - Vendor may be assessed otherwise
- Not required when consuming your own production



SCHEDULES TO EXEMPTION CERTIFICATE APPLICATION (AT 5102)

A – Specified Gas Emitter Facilities

B – Oil and Gas Production Process

C – Manufacturing or Chemical Raw Material/
Diluent / Solvent



SCHEDULE B

OIL AND GAS PRODUCTION PROCESS

- Indicated govt. administrative practice
 - Not required to list each site
 - Note “Various facilities” in the first column
 - List fuels purchased at all sites in the second last column



NEW EXEMPTION CERTIFICATES REQUIRED

- On amalgamations
- Change in operator of joint venture
- Exemption certificate expires or is revoked



EXAMPLES OF EVIDENCE OF EXPORT

- Bills of Lading
- U.S. Customs Entry Summary, including
 - Original U.S. Customs Dept. stamp and original signature
 - Volume, product and bill of lading or ticket as stated by U.S. Customs



EXEMPTION LICENCE (SECTION 18)

- Minister may grant exemption licence to a person who would otherwise regularly apply for refunds
 - Generally a non-direct remitter who would otherwise
 - Pay tax on purchases
 - Have significant exempt sales
- Exemption licensee
 - Purchases fuel exempt
 - Remits tax directly on taxable sales



SPECIFIED GAS EMITTERS REGULATION

- Requires facilities that emit 100,000 tonnes or more of greenhouse gases a year to reduce emissions
 - oilsands facilities, power plants, pulp mills, etc.
- Hybrid carbon pricing system with various compliance mechanisms
 - SGEs purchase fuel exempt from carbon levy
- See csaregistries.ca/albertacarbonregistires/home



TAX ON COAL, COKE AND MISCELLANEOUS GASES

- Paid by consumer (end user)
 - Collected by vendor where fuel sold to consumer in Alberta
 - Remitted by consumer where fuel imported by consumer



TAX ON AVIATION GAS AND AVIATION JET FUEL

- Special rules for persons who transport members of the public or goods for a fee
 - Tax applies only to flights that begin and end in Alberta
 - Apply for exemption certificate and pay based on consumption, or
 - Purchase tax-in and settle with govt. based on consumption
- Foreign carriers exempt if not flying between points in Alberta



CONSUMPTION BY DIRECT REMITTER

- Self assessment on fuel used for taxable purposes
- After 2022 will apply to fuel
 - Flared or vented
 - Used in oil and gas production process



REGISTRATION REQUIRED ONLY IF DIRECTLY REMITTING TAX

- Producing, processing or refining fuel
- Selling or removing fuel from an oil and gas production, processing or offsite storage facility
- Selling or removing natural gas from a
 - Transmission or liquids pipeline
 - Natural gas distribution system
- Selling fuel for the purpose of resale
- Selling aviation gas or aviation jet fuel



REGISTRATION ALWAYS REQUIRED

- Flaring or venting fuel
- Making exempt sales
- Operating a terminal
- Operating a transmission pipeline, liquids pipeline or offsite storage facility
- Selling coal, coke or refinery gas
- Holding an exemption certificate for aviation gas or aviation jet fuel
- Importing fuel for sale, resale or consumption



JOINT VENTURES

- Legislation requires oil and gas company to register separately for **each** joint venture that it operates
- Province has verbally indicated it will not require this in practice
 - Operator's registration will cover all joint venture activities



INVOICES FOR SALES TO PERSONS OTHER THAN CONSUMERS

- Name and address of seller
- Name of purchaser
- Date of sale
- Amount of each type of fuel
- One of the following
 - Rate of tax included in the selling price
 - Amount of the tax
 - Statement that the sale was exempt or not subject to tax



INVOICES FOR CLEAR FUEL

- Name and address of vendor
- Date of sale
- Amount of each type of fuel



RETURNS

- Returns submitted on a calendar month basis
- Must be received (with remittance) within 28 days of month end
- Minister may set thresholds for quarterly reporting for particular operations or activities
- Forms to be available around February 1



REFUNDS

- Intermediary (not a direct remitter or consumer) pays tax on purchase and resells on an exempt basis
- Consumer would have been entitled to exemption had the consumer provided an exemption certificate or other evidence at the time of purchase
- Bad debts
- Four year time limit



TRANSITIONAL RULES

- For fuel held in inventory for resale on January 1, 2017 that
 - would have been subject to tax on purchase or importation had the legislation been in effect
- Owner required to file Inventory Declaration and pay tax by January 31, 2017



PENALTIES

- Failure by direct remitter, vendor or retail dealer to register or pay an amount owing
 - Up to \$10,000 for first offense and \$25,000 for second offense
- Failure to file a return or provide information required by Act
 - \$50 per day



EXAMPLE A – GASOLINE FROM WELLHEAD TO CONSUMER

1. ACo, an oil producer, sells crude oil on delivery from its battery tank to a truck owned by Bco, a marketer
 - Not subject to tax (crude oil is not a fuel)
2. BCo delivers crude oil at a feeder pipeline terminal to CCo, a refiner
 - Not subject to tax (crude oil is not a fuel)



3. CCo sells gasoline it refined from crude oil to DCo on delivery to DCo's terminal
 - Not subject to tax (within P&D system)

4. DCo delivers gasoline from its terminal to a tanker truck owned by ECo, a wholesaler who does not have a s. 18 license
 - Taxable (sold from P&D system)
 - DCo collects and remits tax to govt.



5. ECo delivers gasoline to a retail service station operated by FCo
 - Taxable (outside P&D system)
 - ECo collects and retains tax to offset #4 payment

6. FCo sells gasoline to consumer at pump
 - Taxable (outside P&D system)
 - FCo collects and retains tax to offset #5 payment
 - Consumer pays tax



EXAMPLE B – NATURAL GAS FROM WELLHEAD TO CONSUMER

1. Aco, a non-operating participant in a joint venture involving a gas well, sells raw gas to Bco, the operator, on delivery to a gas plant
 - Not subject to tax (within P&D system)
2. BCo delivers processed gas to Cco, a gas marketer, on delivery to a transmission pipeline
 - Not subject to tax (within P&D system)



3. CCo sells natural gas to DCo, another gas marketer, at a market hub on a transmission pipeline
 - Not subject to tax (within P&D system)
4. DCo sells natural gas to ECo, a natural gas distributor, on delivery from the pipeline to ECo's local distribution system
 - Not subject to tax (within P&D system)



5. ECo sells natural gas to FCo, a retail dealer, just before delivery to a consumer from Eco's local distribution system
 - Not subject to tax (within P&D system)
6. FCo sells natural gas to a consumer on delivery from ECo's local distribution system
 - Taxable (sold from P&D system)
 - FCo collects and remits tax to govt.
 - Consumer pays tax



EXAMPLE C – IMPORT INTO ALBERTA

1. ACo purchases propane delivered to its truck at a gas fractionation plant in British Columbia
 - Not subject to tax (delivery outside Alberta)
2. ACo imports the propane into Alberta in its truck for delivery to a retail service station operated by BCo
 - Taxable (imported for sale outside P&D system)
 - ACo collects and remits tax to govt.



3. BCo sells propane to consumer at pump

- Taxable (outside P&D system)
- BCo collects and retains tax to offset #2 payment
- Consumer pays tax



EXAMPLE D

1. ACo, who operates a gas processing facility, delivers condensate to a truck owned by BCo, a wholesaler who does not have a s. 18 license
 - Taxable (sold from P&D system)
2. BCo delivers condensate to an oilsands facility owned by CCo for use as diluent to ship bitumen by pipeline
 - Exempt, provided CCo provides exemption certificate
 - BCo applies for refund of tax paid at #1



EXAMPLE E

1. ACo, who operates a straddle plant, delivers ethane to BCo, a wholesaler who has a s. 18 license
 - Exempt due to license
2. BCo delivers ethane by pipeline to a petrochemical plant owned by CCo for use as raw material feedstock
 - Exempt, provided CCo provides exemption certificate



EXAMPLE F

1. ACo, who operates a gas processing facility, delivers a gas liquids mix by pipeline to BCo at BCo's gas fractionation plant
 - Not subject to tax (within P&D system)
2. BCo delivers propane at its plant into railcars leased by CCo for export to the U.S.
 - Exempt, provided evidence of export retained by BCo



EXAMPLE G

1. ACo, who operates a gas processing facility, delivers natural gas via pipeline to BCo for use as fuel to operate BCo's oil wells
 - Exempt, provided BCo provides exemption certificate
 - If BCo does not provide an exemption certificate, ACo collects and remits tax
 - BCo may be entitled to a refund

