



CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS

Canada's Oil and Natural Gas Producers

April 8, 2014

Ms. Lynn Kriwoken
Director, Water Protection & Sustainability
BC Ministry of Environment
PO Box 9362 Stn Prov Govt
Victoria British Columbia V8W 9M1

Dear Ms. Kriwoken:

Re: Water Pricing under Bill 18 - BC Water Sustainability Act

The Canadian Association of Petroleum Producers (CAPP) has reviewed the *Pricing BC's Water* document and is pleased to provide comment on the principles to inform water pricing to the British Columbia Ministry of Environment (MoE).

CAPP is in agreement with the principles put forward in the *Water Sustainability Act*. In particular, our members support an approach to water pricing that includes:

1. Simplicity
2. Fairness and equity
3. Distributed costs of water management among all users, enabling business competitiveness
4. Fair recovery of the costs of managing the water resource
5. Efficiency: Incentives for increased water use efficiency and use of non-potable water
6. Food Security and public health

A detailed review of the principles is provided in the attached table; however we offer the following general comments on the topic of water pricing:

- Water is a valuable resource and protecting this resource is a key priority for all of industry.
- Water is important for oil and gas activities and our sector's responsible use yields significant economic benefit relative to other sectors.
- While CAPP is supportive of a fee increase that covers administrative costs, we would request that any fee increases maintain the relative rates between consumptive and non-consumptive uses, as per the current oilfield use fee schedule.
- Saline/unusable groundwater should be exempt from the water pricing structure. In addition to these water sources being unsuitable for other purposes, there may be significant extraction, transport, storage and treatment costs associated with their use. By increasing the

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price of poor quality water sources, the incentive for use as an alternative to fresh water is diminished.

- Pricing should reflect regional water scarcity or abundance to ensure that water is not prioritized above other environmental considerations. Water conservation efforts must take into account all potential environmental impacts
- It is useful to consider the intent of water pricing. Assuming it is to provide a mechanism to reduce water use, industry is already governed by a permitting system which is used to incent more efficient water use by the industry. Pricing is therefore a redundant approach. Further, we would argue that significantly increased pricing will increase the competitive cost burden which can have a negative impact on investment, the development of the province's hydrocarbon resource and ultimately provincial revenues associated with royalties and land sale payments.

Thank you for allowing CAPP the opportunity to provide feedback on this important topic. We welcome further discussions on the points raised in this submission. Please contact the undersigned at zoe.thomas@capp.ca or 403-267-1104 if you have any questions or require further clarification.

Sincerely,



Zoë Thomas
Manager, Water and Reclamation
Canadian Association of Petroleum Producers

Cc: Mark Zacharias, ADM, Environmental Sustainability and Strategic Policy, BC Ministry of Environment
Ines Piccinino, ADM, Upstream Development Division, BC Ministry of Natural Gas Development



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Specific Comments - Water Pricing under BC *Water Sustainability Act (WSA)*

<p>Existing water pricing</p>	<ul style="list-style-type: none"> • In BC, most petroleum uses for surface water are currently charged a rental fee of \$1.10/1000m³. This is the highest fee across all sectors. • Groundwater and surface water will be treated as one resource and subject to the same pricing structure under the <i>WSA</i>. Currently there are no fees for groundwater use in BC. • Current fees for groundwater use in other jurisdictions: SK: \$0-12.53/million L (all uses except industrial exempt) MB: \$0.01-0.02/million L (all uses except industrial exempt) NS: \$117-143.77/million L (fees only charged where water use over 23,000L/d) YK: \$1.50-2.00/million L (for water use over 100m³/d) NWT: \$1.50-2.00/million L (where water use requires a license) NUN: \$1.50-2.00/ million L (all water users pay fee)
<p>1. Simplicity</p>	<ul style="list-style-type: none"> • This is a fundamental question of how BC intends to manage water. It appears that intent remains to have one time application fee and annual rental continue as it stands today. However, when we start to call water an asset and resource, and we discuss compensation for consumption of resource (akin to timber) suggests we are no longer simply discussing access to resource. This is a distinction that is not clear. • Agreement that water pricing needs to be predictable. It is critical for business development planning that the intended costs are transparent and fair. • If water revenue will go into a general fund, how will BC ensure that the fees paid by industry are allocated to the resource as planned? How will this be tracked (in transparent manner?)

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<p>2. Fairness and Equity</p>	<ul style="list-style-type: none">• This concept requires clarification; equitable pricing implies that it is the same price for all users. The way this is worded suggests that the more you can afford to pay, the higher the price will be for water.• If similar uses of water should be subject to similar pricing, oil and gas, mining and other industrial purposes should be considered as equivalent uses and should be priced accordingly• How will the value of water be determined and from what perspective (corporate value, industry value, Provincial value, communities value, ecological value)?• Increased pricing in areas of water scarcity may be appropriate• Temporary uses of water should not be priced differently than licenses; the license holders have a vested interest in maintaining the health of the water resource and are long-term contributors to management cost recovery (often in the form of monitoring programs and scientific studies). These efforts should not be penalized.
<p>3. Implications for water users</p>	<ul style="list-style-type: none">• Need to strive for a fair and equitable approach for all water users as they look to distribute the cost of water management; one or two sectors should not carry the majority of the cost recovery.• Surface water, potable groundwater and non-potable groundwater should not be subject to the same pricing structure; this contradicts the principles that “incent the use of non-potable water” and “enables business competitiveness”• There are inherent increased costs associated with the exploration and use of groundwater resources that must be recognized when considering pricing (the fee to apply for a groundwater well permit is \$11,800 and must be paid prior to drilling or confirmation of a water source).• Due to these costs (which are even greater for deeper/lesser quality sources) otherwise unusable groundwater and saline groundwater should be exempt from rental fees, so as to incent their use• A rental fee for these resources would be an additional cost burden that would limit business competitiveness• If saline groundwater is intended to be priced, how will this cost account for cases where disposal takes place into the same zone?• Any decisions on fees should be made to maintain industry competitiveness in the face of an overall increasing cost burden

<p>4. Impact on the water resource</p>	<ul style="list-style-type: none">• Clarification on this point is required. By regulation, all the water used by the oil and gas industry for hydraulic fracturing (saline and non-saline) is defined as a consumptive use. This is because in the current regulatory environment, there has been no allowance for our industry to treat and release water back to the environment.• There is a concern that by adding oil and gas purpose to Section 2 of the WSA, this sector is being differentiated from mining and other industrial purposes. Fees for oil and gas consumptive use should be the same as other consumptive uses.• This principle contradicts water pricing that “enables business competitiveness” by subjecting certain sectors to different pricing based on the consumptive vs. non-consumptive use distinction• Water removed from a source, regardless of consumptive or non-consumptive use, must meet regulatory requirements to maintain the environmental integrity of that source prior to removal• Will the definition of consumptive use apply to saline water?• Will the pricing scheme give the oil and gas industry credit for the reuse of produced water?• When considering water pricing that reflects the potential impact of the intended purpose or activity, subjective methods for determining pricing should be avoided. When evaluating consumptive versus non-consumptive clear definitions will be required, and the evaluation should be specific to the water source. For example, some consumptive uses are for water sources that are already removed from the watershed from an environmental support perspective (i.e. saline groundwater).• If we start to distinguish cost scale based on impact of intended purpose or activity on the resource, there is insufficient understanding of impacts. Simply identifying consumptive vs non-consumptive is not necessarily providing cumulative net impacts of different activities on the resource. Moreover, similar activities conducted in different watersheds (ie northwest coastal vs Okanagan) will have different impacts.
<p>5. Cost Recovery</p>	<ul style="list-style-type: none">• How will the fees generated from water use be used to enhance understanding of water across the Province or will it just go into government general revenue? How will this be demonstrated?• This comment alludes to the need for pricing to cover monitoring costs. CAPP supports this, but recognizes that for larger consumers of water, the draft <i>Water Sustainability Act</i> already provides for increased need for applicants to conduct monitoring to demonstrate an understanding of environmental flow need. This cost should not be duplicated in the

	<p>pricing for water use.</p> <ul style="list-style-type: none">•
6. Efficiency	<ul style="list-style-type: none">• Agreed that pricing should incent the use of non-potable sources. However a clear and appropriate definition of saline water will be needed to encourage the use of this non-competing water source.• Will fees be applied for water allocated or water used?• In order to ensure clarity and certainty regarding access/use/cost of water to allow for informed investment and development decisions, and due to the lengthy approval process for water licensing, industry may ask for the licensing of more water than may ultimately be used. In areas without competing uses, over-allocation, or real constraints on available water (i.e. no risk of using more water than the source can environmentally sustain) this will have neither environmental nor social impacts. In these situations, charging for licensed volumes instead of used volumes may be punitive and impede environmentally responsible economic development• Pricing water on an as-used basis would support the stated goal of supporting sustainable water management, by linking the price of water to the actual use and thereby incentivizing on-going water use reduction.
7. Food security and public health	<ul style="list-style-type: none">• Caution will be needed when determining food security and public health. Clear definitions will be required, as there are water uses by other sectors that either directly or indirectly support food security and public health. The exclusion of indirect activities will have negative effects to those deemed essential to the contribution of food security and public health.