

I'm not expert in royalty regimes and as such my comments reflect perspectives shaped by the media and by my own experiences and observations than a knowledgeable and thorough understanding of the details of the structure and its affects.

Thank you for the opportunity comment and for your involvement in reviewing Alberta's royalty structure - a system that is of importance to all Albertan's both now and in the future. The structure affects all Albertan's now, not just in the immediate royalties that are brought in and the use of those funds to meet immediate needs, but also in how the Royalties influence the Alberta economy, how they affect the Environment, how they affect the local and regional communities in which the resources extraction occurs in., how the Royalties create incentives for some activities over others.

The people of Alberta through the provincial government own these oil and gas resources. The communities and regions in which the resource extraction occurs in are profoundly influenced for good and for ill by the resource extraction that occurs locally.

Let's look at Grande Prairie. We're experiencing rapid growth, rising prices, shortages of essentials – like labour, affordable housing, strained public services like schools / education, health care / hospitals, infrastructure like good roads and transportation systems, large investments needed to upgrade water / wastewater infrastructure and increased demands on social services, more homeless, and increased crime.

While these issues are not unique to Grande Prairie, they are more acute given the high rate of growth that's occurring, much of it as a result of a high oil and gas activity in the region.

With the planned oil sands development planned for the Peace Region these community issues will only intensify.

High levels of oil and gas activity that strain a community's capacity to accommodate don't need to reach the crisis levels of Ft McMurray where:

- ❖ The Municipality has called for a moratorium on further oil sands development to ensure community and environmental issues are adequately addressed.
- ❖ A crisis situation has developed regarding infrastructure and community needs resulting in the recent large investments by the Province of hundreds of millions of dollars.
- ❖ Companies have resorted to building huge camps or compounds for workers, flying or bussing them in from elsewhere to work their shifts, then back again.
- ❖ It's a place where more people work but don't live.

How can the Royalty Structure help address these Issues?

Leave more of a Local Legacy

Local issues can best be addressed locally where the negative impacts of oil and gas extraction are most acutely felt. A mechanism can be put in place for a portion of the revenues generated in a region to be returned to that region to address community capacity issues. One such way is to require as a condition of major new approvals, that the companies contribute on an annual basis to a fund that directly meets local / regional needs.

Companies Contributing to Regional Community Foundations

A successful local example of this is in the forestry industry, where the Province required a benefiting company to contribute annually to the regional Community Foundation as a condition of a Forestry Management Agreement. The company then receives recognition for its direct contribution and community needs are met through the Community Foundation. Community Foundations have the accountability structures and local representation to best address community needs as they emerge and should be considered as a vehicle by the Province in addressing community capacity needs.

“Fair Share” Agreements

The BC government has committed to a longer term agreement with its Peace Region communities to reinvest more of the revenues generated from oil and gas extraction to address community needs. A similar arrangement in Alberta between the Province and municipalities in regions where high levels of oil and gas extraction occur can help ensure that the resulting community issues are better addressed and that these communities are more desirable places to live.

Leave more of a Provincial Legacy

The Royalty Structure could perhaps be adjusted to better share in the risks and rewards of oil and gas extraction.

The existing royalty structure has been criticized for

- ❖ Not recovering enough for Albertans - that the benefits of our non-renewable resources haven't been captured to the degree that other places like Alaska or Norway (or even Texas) have.
- ❖ Providing too little return to the people of the province when oil and gas prices are high. That the current structure of accelerated tax right offs for oil sands development for example was appropriate when oil was around \$20 / barrel over a decade ago rather than around \$60 / barrel today.

The Royalties affect the future of Alberta – the non-renewable resources with which Alberta has been blessed present an enormous opportunity to leave a legacy of prosperity, sustainability, long after the resources has been depleted.

The Royalty Structure along with commodity prices affect the level of activity and investment in oil and gas extraction directly. Royalty holidays when prices are

low spurs activity and lifts the economy and encourages continued extraction during depressed commodity prices. The Royalty Structure in this way can buffer the otherwise boom and bust cycles inherent in the industry.

On the other hand, a Royalty Structure designed for lower commodity prices, as commodity prices rise, can fuel booms, inflation and represents a profound lost opportunity to create a legacy for the future as well as improving the quality of living for all Albertans now. We seem to be in that situation now.

These non-renewable resources were here long before Alberta came to be. The royalty structure can leave a lasting legacy long after the actual resources have been depleted.

Encourage secondary processing

The tax structure should also encourage secondary processing, value added refining here, not elsewhere. The resources can have so much more benefit when we go beyond simply shipping them off to elsewhere to be refined, processed. We continue to expand pipeline capacity to ship oil and gas products out of the country. The royalty / tax structure needs to create incentives for the refining, processing and manufacturing of oil and gas products here in Alberta and in Canada. Value added processing creates an opportunity for additional economic growth as well as providing a counter balance to volatile commodity prices and can provide a more stable revenue stream to sustain the government programs when commodity prices drop.

Encourage a more diversified economy

What happens when it's gone? Royalty revenues could be used to encourage a more diversified, sustainable and renewable economy. The Province is increasing support to renewable forms of energy and for the implementation of renewable alternatives to oil and gas, capitalizing on other Alberta advantages.

An example of this is recent increased support for bio-fuels and renewable energy development.

A local example is Grande Prairie Community Energy System. It represents an opportunity where heat generated by Canadian Gas & Electric from waste wood at the Canfor sawmill in town can be used to circulate water in insulated pipes to provide heating form most of the major buildings in the community, most of which are funded directly or indirectly by the Province or the City. The biomass fuel available from the pine beetle plague could be put to good use in this kind of a system.

Increased support by the Province in implementing these kinds of local opportunities can create a more diversified and sustainable economy.