

Royalty Review

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Who am I?

- Small producer
 - ◆ operate wells at end of life
 - ◆ operate wells given up on by big oil
 - ◆ more efficient, lower cost, typically 50%
 - ◆ prolong well life, recomplete, re-enter, re-activate, stimulate
 - ◆ extract maximum reserves
 - ◆ typical of who should be operating mature basin wells

Who am I?

- Albertan - my cash flow stays here
- over 90% of op costs to rural Alberta
- use local suppliers
- know all my landowners & operators
- producers like me are big part of rural Alberta economy
- municipal taxes, employment, surface leases
- contribute to rural Alberta prosperity

ARTC

- ARTC was clawed back on Jan 1 2007 - \$165 million per year
- 56% (\$92 million) taken from small oil
- my royalty cost went up by 20%, Esso went up by 0.1%
- this was exactly the wrong thing to do
- need to encourage small oil, not penalize and discourage

The Last Royalty Review

- 1974, Alberta jacks up royalties substantially
- Ottawa disallows royalties
- National Energy Program
- finally, Jan 1 2007, all is returned to “normal”
- April 2007, jack up royalties again?

Royalties

- we have prosperity under the current royalty regime
- jobs, jobs, jobs
- quality of life
- no major changes, please

Conclusions

- small producers probably not survive another fight with Ottawa
- overall take by royalty system is OK, excluding ARTC
 - ◆ developed thoughtfully over the years
 - ◆ yes, is complicated, but yields desired result
- the way oil royalties are collected is antiquated
- gas royalty collection methodology is very good

Recommendations

- Replace ARTC with a focussed small producer friendly program, Marginal Well Incentive Program (MWIP)
 - ◆ will encourage small oil to be more active to develop & produce small reserves
 - ◆ \$500,000 limit
 - ◆ administered through Petroleum Registry
 - ◆ use Income Tax Act rules for Carter problem
 - ◆ eliminate “tainting” issue

Recommendations

- Streamline and refocus oil royalties
 - ◆ go to Petroleum Registry with oil royalties
 - ◆ eliminate penalties for take-in-kind reporting - eliminate take-in-kind!
 - ◆ simplify reporting
 - ◆ redistribute small royalties - reduce overheads for Crown & industry
 - ◆ waterflooding incentives
- fix the lost GCA issue on gas
 - ◆ slanted towards gas plant owners and the Crown, against small oil

Closing

- the future of conventional production in Alberta is with small oil
- healthy small oil means healthy rural Alberta
- make sure rural Alberta does not get left out of this review