

ROYALTY REVIEW PANEL
ALBERTANS NEED TO RECEIVE FAIR VALUE FOR THEIR RESOURCES.

All available information one can find indicates that the Alberta royalty rate is one of the lowest in the developed world.

Canadian crude has been sold to the United States for years where it has been discounted for one reason or another. One would think that our crude would receive a premium as it should be considered a safe source of supply.

Royalties should not be set on the discounted price but set at a value that Albertans see as fair and if no one wants to purchase the oil, we can leave it in the ground or reduce the price. The choice should be ours.

We should be concerned that many of the sales are not arm's length transactions but within one company. Many of the purchasers are US companies who have a significant interest in Canadian companies that are producing the oil and by discounting, can move revenues without paying taxes and royalties. I believe other purchasers find this system attractive as they can purchase Canadian oil at a discount and make huge profits as the prices are set by the major players.

I would like to point out that the Canadian Association of Petroleum Producers (CAPP) has been concerned that pipeline companies are making windfall profits. To address this, they have reached an agreement with the major pipeline companies (Enbridge, TransCanada) to enter into something called "Incentive Tolling Agreement". This agreement focuses on reducing operating costs and sharing of any windfall profits. During each contract period, pipelines are encouraged to reduce their operating costs as costs are compared from year to year. Any profits that are over a predetermined percentage are shared with CAPP. There is a formula set so that as the pipeline company's profits grow above the base line, CAPP receives an ever increasing percentage.

A sliding scale of royalties paid would provide a very fair royalty model for the government to follow. It would allow the industry to pay royalties that are sensitive to world prices. During low crude prices, it would enable them to continue to operate and make a fair profit. As world prices rise, any windfall profits would be better shared with Albertans who own the resource.

The oil companies always threaten to move elsewhere if royalties are not to their liking. Do not let this threat influence you as there is no safer place to do business than here in Canada.

This model would also encourage producers to reduce costs as we now see that costs are out of control, It seems that companies are not concerned with escalating cost of the oil sands plants as under the existing royalty structure both the federal and Alberta governments pay for all construction costs before any significant royalties are paid.

As this is CAPPs model for sharing windfall profits they are sure to embrace this kind of revenue sharing program.

I encourage you to recommend to the government a royalty structure that is fair so that Albertans who own the resource receive their fair share.

D Savard