Mr. Bill Hunter
Chairman - Royalty Review Panel
Fax (403) 297 -5238

Re: Oil Sands Royalties
My Submission and Attached News Reports

Dear Mr. Hunter

I am sending along copies of two news articles in today's Edmonton Journal.

In the first, Mark Nelson of Chevron responds to my suggestion tha1 oil sands royalties in Alberta should be bench marked against high cost - high risk deep water oil in the Gulf of Mexico. He claims that the total "government take" of about 50% is comparable between the two. In order to get the "government take" to 50% in the Alberta oil sands he has to include: royalties, provincial income tax, federal income tax and property taxes. He is not comparing apples to apples. The only valid comparison is royalties to royalties. For example, he includes property tax as "government take" without making any allowance for the fact that the municipality is spending <u>all</u> of its industrial tax revenues to meet the infrastructure needs of <u>his</u> industry. He is getting all his property taxes back in the form of municipal infrastructure.

That is why I am forwarding the second article. The M.D. of Wood Buffalo is going <u>broke</u> servicing the oil sands industry. And the province is spending all of its income tax revenue from these projects on highway and other improvements to service Fort McMurray. In fact, the oil sands developments are being <u>subsidized</u> out of provincial tax revenues.

Fred McDougall

THE PUBLIC PURSE

Alberta's light touch helps oil industry

Low gov't take is incentive, says Chevron boss

GORDON JAREMKO
Journal Business Writer
EDMONTON

Combined royalties and taxes on the oil industry in Alberta rank among the lightest in the world, Chevron Canada president Mark Nelson said Tuesday.

The total "government take" of about 50 per cent is comparable to the load on production offshore of Texas in the Gulf of Mexico, Nelson told the provincial royalty review panel.

Alberta also stands out for not yet increasing the public share of revenues from provincial resources as oil and natural gas prices rose since 2002, he said.

The government take rose around the world, from Angola to Venezuela, as energy prices climbed over the past five years, Nelson said as he showed the panel international financial research.

Chevron operates in 108 countries and shops around the globe for development targets, he reported. As a wholly owned subsidiary of the international giant, Chevron Canada competes for attention with the rest of the world.

Combined royalties and taxes have been hiked into the 90-per-cent range in 10 oil-rich countries such as Trinidad, Nigeria, Angola, Kazakhstan, Libya and Venezuela, Nelson's charts showed.

In the United States, royalties and taxes on Gulf of Mexico operations increased by about five percentage points since 2002.

In the North Sea, the British raised the government share of oil and gas production revenue to more than 50 per cent from about one-third.

But effects of such increases should also be lessons to Alberta, Nelson suggested. British tax hikes led to sharp drops in oil investment, drilling and employment in 2002 and this year, he pointed out. Alberta should take all factors influencing industry activity into account when deciding next steps on royalties, Nelson urged.

In the oilsands, where Chevron Canada owns 20 per cent of the mammoth Athabasca Oil Sands Project and 730 square kilometres of new bitumen leases in the Ells River region west of Fort McMurray, he described the resources as expensive and difficult by world standards.

"The fiscal regime for oilsands alone has the potential for a significant impact on investment plans," says a written Chevron submission to the royalty inquiry.

"Any royalty changes cannot be considered in isolation of other changes and uncertainties."

Chevron pointed to recent federal cancellation of an oilsands corporate tax break, emerging controls on greenhouse gas emissions, escalating labour and materials costs, evolving provincial land use and water management plans, unpredictable energy prices and unfavourable increases in the value of the Canadian dollar.

"It is our estimation that cumulative impacts of these changes will deteriorate, possibly materially, project viability and impact the level of oilsands investment," Chevron said.

The company will stay in the province and adapt to whatever royalty or other policies the province enacts, Nelson told reporters. "Chevron is committed to Canada and Alberta."

But the pace of the company's projects remains to be determined, he said, adding that preliminary work is only beginning on the Ells River leases and development decisions remain years away.

gjaremko@thejournal.canwest.com

Municipality's debt balloons amid oil boom

Wood Buffalo already over limit, but needs $831M in spending

Journal Business Staff
EDMONTON

Alberta's biggest municipality, with the world's second-largest oil reserves, also has the province's highest debt ratio.

Melissa Blake, mayor of the Regional Municipality of Wood Buffalo in the northeast corner of the province, described its problems Tuesday at the Alberta Bloom Conference.

Wood Buffalo is bigger than Nova Scotia, and faces the stimulus of enormous capital spending of $5 billion to $16 billion a year over the next five years. The lack of project pacing has been a major problem, Blake said. "Before one is finished, the next one starts."

Growth is running so far ahead of residential construction that the average rent on a two-bedroom apartment now is $1,717 a month — about double the Edmonton level.

The municipality needs $831 million for infrastructure improvements in recreation, water treatment and distribution, waste-water treatment, sewers, roads, landfill and police facilities.

Unfortunately, the municipality's debt has surged past its allowable limit.

In retrospect, Blake said, "forward thinking in the 1990s could have created a land-banking strategy and inventory to stream development land onto the market at our pace." But that didn't happen, partly because the average growth rate of nine per cent exceeded forecasts over the past six years.

In the past 10 years the population of Fort McMurray, the largest centre in Wood Buffalo, has grown from 36,000 to 65,000.

Blake said other high-growth municipalities, such as Grande Prairie and Cold Lake, share many of Wood Buffalo's problems.

Blake was the keynote speaker at the Alberta Bloom Conference, hosted by Statistics Canada, which drew 200 delegates to the Coast Edmonton Plaza Hotel.