



**Small Explorers & Producers  
Association of Canada**

*Canada's Oil and Gas Entrepreneurs* <sup>TM</sup>

**Alberta Royalty Review Panel  
May 2007  
Calgary**



# Who We Are

- 450 member companies
- 80% junior oil and gas producers and 20% providing goods and services to the upstream industry
- SEPAC members are 34% of Alberta's active operators \*
- Drilled 18.5% of all new wells in Alberta in 2006\*
- Junior producers uniquely positioned to find and develop Alberta's conventional oil and gas for decades to come

\* Source: Daily Oil Bulletin 2006 Top Operators



## What does Alberta's conventional petroleum industry look like in 2007?

- Conventional oil production less than half of peak in 1973
- 61% of our oil wells produce less than 12 bbls/day\*
- We replace only about 65% of current natural gas production each year\*\*
- Oil and gas pools discovered now are smaller, have faster decline rates and lower production
- Alberta has among the highest costs in the world to find and produce oil and gas...in part because the reserves being found today are so small

\* CAPP

\*\* EUB Report: Alberta's Energy Reserves 2005 and Supply/Demand Outlook  
ST98-2006



## Dollars left in the hands of private sector provide a huge boost to Alberta's economy

- 85% of typical junior's spending stays in rural Alberta
- \$25,000 per year for each producing well is spent on jobs and services in rural Alberta
- For every dollar left in their pocket juniors invest 2 or 3 more looking for more oil and gas in Alberta
- A well never drilled ...or shut in prematurely means stranded resources, lost jobs and economic activity across Alberta and no royalty to government
- Alberta's economy would be about half its current size without the petroleum industry\*

\* Energy & the Alberta Economy, Mansell and Schlenker Dec. 2006



## Alberta hit the conventional sector in 2006

- September 2006 Alberta cancels Royalty Tax Credit saying this will “increase government revenues from energy resources...by a further \$111 million” per year
- August 2006 Alberta “eliminates or substantially reduces” 4 other royalty incentive programs and claims will “increase resource revenues by up to \$186 million annually”
- Cancellations warranted due to “...unprecedented investment, exploration and profits” stated Alberta’s Energy Minister (Sept. 21/06)



## “Unprecedented investment, exploration and profits” .... 6 months later

- April 2007 well licenses “down 50% from last year”\*
- “Brutal drop” in gas permits\*
- “Lowest count for new well licenses since 1999”\*
- “Saskatchewan is the one bright spot...”\*
- “BC woos oil and gas with cost cut”\*\*
- Alberta? ....a Royalty Review Panel

\*Daily Oil Bulletin, May 11/07

\*\*National Post February 3/07



## Van Meurs: World Petroleum Fiscal Systems Compared

- Alberta 3<sup>rd</sup> Tier Oil with ARTC...#52 of 324 regimes
- Without ARTC...#209 of 324
- Alberta New Gas with ARTC...#48 of 258
- Without ARTC...#212 of 258



## Small producer economics: new wells

	Perception	Reality 2/3 oil, 1/3 gas
Revenue-\$/bbl-US-WTI	\$60.00	\$60.00
Exchange-\$1Cdn=\$0.90 US	.90	.90
Revenue-\$Cdn/boe	\$65.00	\$65.00
Differential-quality-\$/boe Med. Oil or natural gas at \$7.50/mcf x 6	-----	\$(20.00)
<b>Realized field price</b>	<b>\$65.00</b>	<b>\$45.00</b>
Royalty-20% avg. rate	\$(13.00)	\$(9.00)
Operating cost-\$/boe	\$(15.00)	\$(15.00)
<b>Netback - \$/boe</b>	<b>\$37.00</b>	<b>\$21.00</b>
G&A + interest-\$/boe	\$(6.00)	\$(6.00)
<b>Net cash flow/boe</b>	<b>\$31.00</b>	<b>\$15.00</b>
Finding & development cost-\$/boe	\$(20.00)	\$(20.00)
<b>Profit (loss) for investors</b>	<b>\$11.00</b>	<b>\$(5.00)</b>



## SEPAC's Conclusions & Recommendations

- First duty of Panel and Government: 'cause no harm'
- With the exception of the 2006 increase in royalties through ARTC cancellation, SEPAC believes the current royalty regime is reasonably fair for both Albertans and industry and SEPAC opposes any increase in royalties or government 'take'
- SEPAC believes certain features e.g. low productivity wells can be improved and the administration of royalty collection and reporting can be made more efficient and thus less costly, particularly for small companies
- SEPAC will be submitting a written report with specific recommendations to the Review Panel and the Department Energy



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Thank you