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Presentation to the Alberta Royalty Review Panel

Heather Douglas

President & CEO

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About the Chamber

- Represents more than 3,200 Calgary businesses.
- 75% of members are small businesses
- Leading forum for discussion and debate on critical public policy issues, and advocate of new ideas, approaches and solutions.



Rationale for Chamber Submission

- Oil and gas represents 42% of the provincial economy:
 - 15% results from direct oil and gas activity.
 - 27% results from downstream and spin-off economic activity.
- Changes to the provincial oil and gas fiscal regime impact all sectors of the economy – from the drilling contractor to the dry cleaner.



Context: Industry Uncertainties

- Capital and operating costs have increased
 - Costs per barrel rose from \$18 in 2004 to \$35 in 2006 (NEB).
- Changing tax and regulatory framework
 - 2007 *Federal Regulatory Framework for Industrial Air Emissions*.
 - 2007 *Alberta Specified Gas Emitters Regulation*.
 - Federal removal of the *Accelerated Capital Cost Allowance*
 - Removal of the *Alberta Royalty Tax Credit*
- Leads to uncertainty and instability – risking investor confidence and investment.



Alberta System Comparison

- Canada's fiscal regime ranks 79th out of 324 for oil projects (World Fiscal Systems).
- Compares to the US Gulf Coast, Alaska and Australia
 - Similar cost structures and governance models as the Alberta oil sands.
- The Alberta oil and gas industry is increasingly oil sands dependent.
- Total government take on oil sands is 49% - higher than the US Gulf Coast (47%), but the same as Alaska.



Sensitivity to Market Conditions

Conventional Oil and Gas

- Royalty prices reflect factors such as year discovered, well size, density, composition, production and price.
- Accommodates risks associated with different types of projects and is sensitive to market conditions.



Sensitivity to Market Conditions

Oil sands

- One of two royalty rates may apply:
 - **Pre-payout** - 1% of gross project revenue before project costs are recovered.
 - **Post-payout** - greater of 1% gross revenues and 25% of net revenues, after costs are recovered.
- Accommodates oil sands cost structure
 - High initial capital costs, long lead time before profits, volatile prices.
- Government-private sector **risk-sharing model**
 - Profits/ royalties responsive to costs, price, production and quality.



Tax Treatment of Oil and Gas Sector

Accelerated Capital Cost Allowance

- Shifts the timing of tax payments until projects are generating revenues.
- Federal government will phase out effective 2010.
 - Discourages new investment by increasing the time capital is at risk.
 - Oil sands projects now at a comparative disadvantage relative to other mining projects.
- Recommendation - no provincial change.



New Royalty Programs

- Programs should reflect the current and future realities of Alberta's oil and gas sector.
- Encourage the development of:
 - Lower productivity wells;
 - Unconventional petroleum sources (e.g. coal bed methane and shale); and
 - Investment in advanced and/or green technologies.



A Cautionary Note

- Oil and gas represents 42% of the provincial economy:
 - 15% results from direct oil and gas activity.
 - 27% results from downstream and spin-off economic activity.
- Significant uncertainty with recent changes to government environmental and fiscal policies.
- Alberta government should **exercise extreme caution** in proceeding with any proposed changes (if at all).



Recommendations

1. No changes should be made to Alberta's oil and gas royalty system
 - The current regime compares favourably to other jurisdictions;
 - Is responsive to market conditions; and
 - Reflects the unique structural and investment realities of the Alberta oil and gas sector.



Recommendations

2. Continue to provide the Accelerated Capital Cost Allowance for oil sands projects
 - Maintains the industry's relative competitiveness and stability; and
 - Encourages new investment.



Recommendations

3. Exercise caution in contemplating any changes to the oil sands fiscal regime
 - Importance of the industry to the provincial economy;
 - High risk profile of investment (e.g. large initial capital investment, long lead time before profitability, volatile prices); and
 - Political uncertainty surrounding the industry.



Recommendations

4. Grandfather existing fiscal arrangements for projects that have already made good faith investments.



Recommendations

5. Endorse oil and gas programs that develop:
 - Lower productivity wells;
 - Unconventional petroleum resources; and
 - Advanced and greener technologies.



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Discussion