

# Alberta Royalty Review Presentation

*May 22, 2007*



- **Who is CAPP?**
- **Why are we here?**
  - Pleased to participate – see great value in getting all the current information out to Albertans
- **Focus on a few key points related to royalties and taxation**
  - Happy and willing to sit down and discuss more detail with the panel (open and transparent)
  - Focus on environmental issues in several other public forums where our industry is engaged

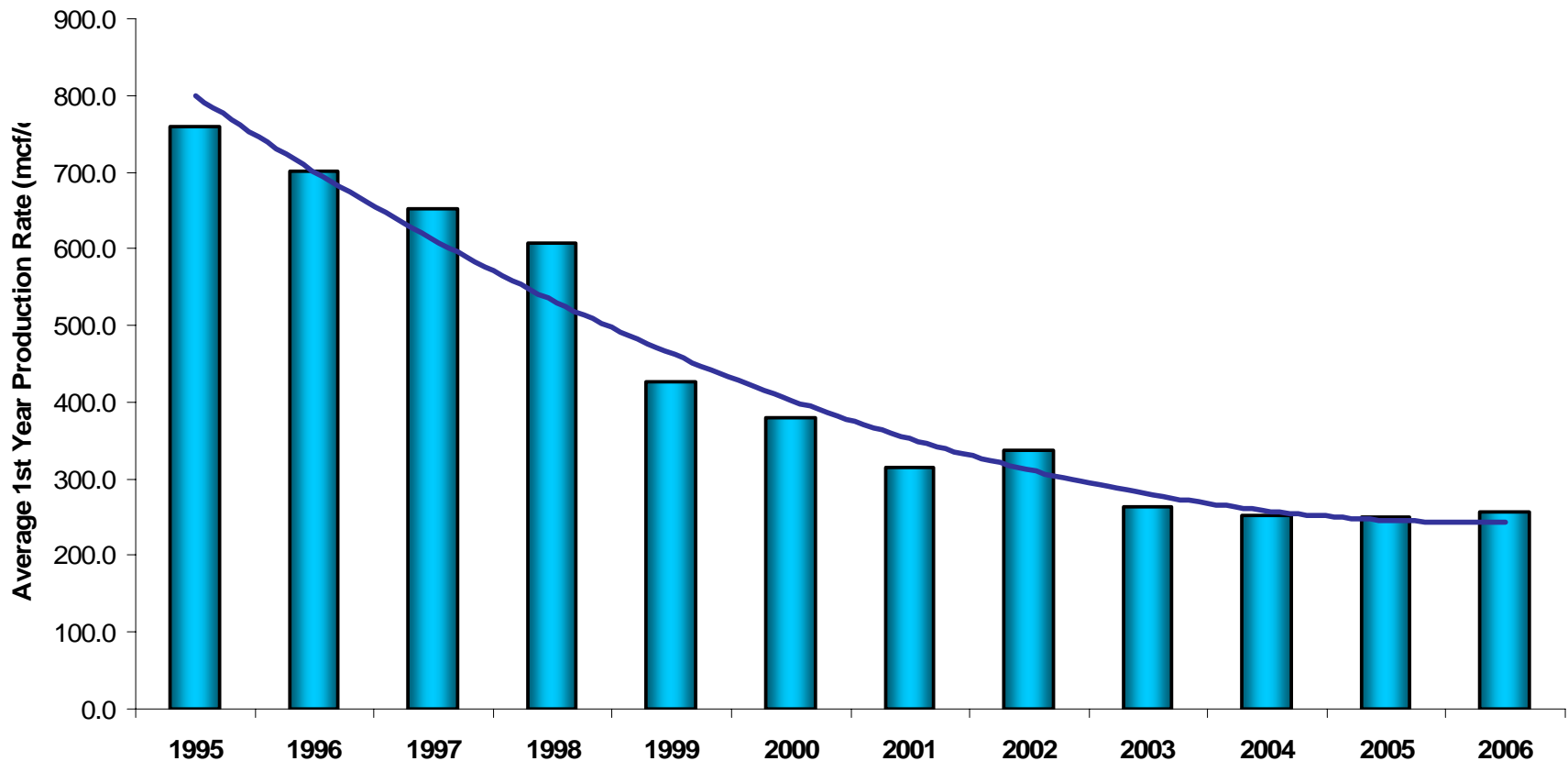
- **Government share**
  - Direct
    - Upfront lease bids + Production royalties (owner of the resource)
    - Income and property taxes, fees and lease rentals
  - Indirect
    - Benefits of investment, spending, jobs, business creation
    - Income and other taxes on employees and businesses supplying goods and services to the sector
- **Principles**
  - Competitive, simple, clear, stable, aligned with economic objectives, balanced risk for upside and downside
- **Prices and costs matter = margin**

- **Royalty regime needs to be robust enough to reflect the maturing Alberta basin and the shift to unconventional resources**
  - Conventional oil getting heavier
  - Enhanced oil recovery (EOR) extending recoveries
  - Conventional natural gas beginning shift to CBM and tight gas
- **Higher commodity prices have coincided with higher costs**

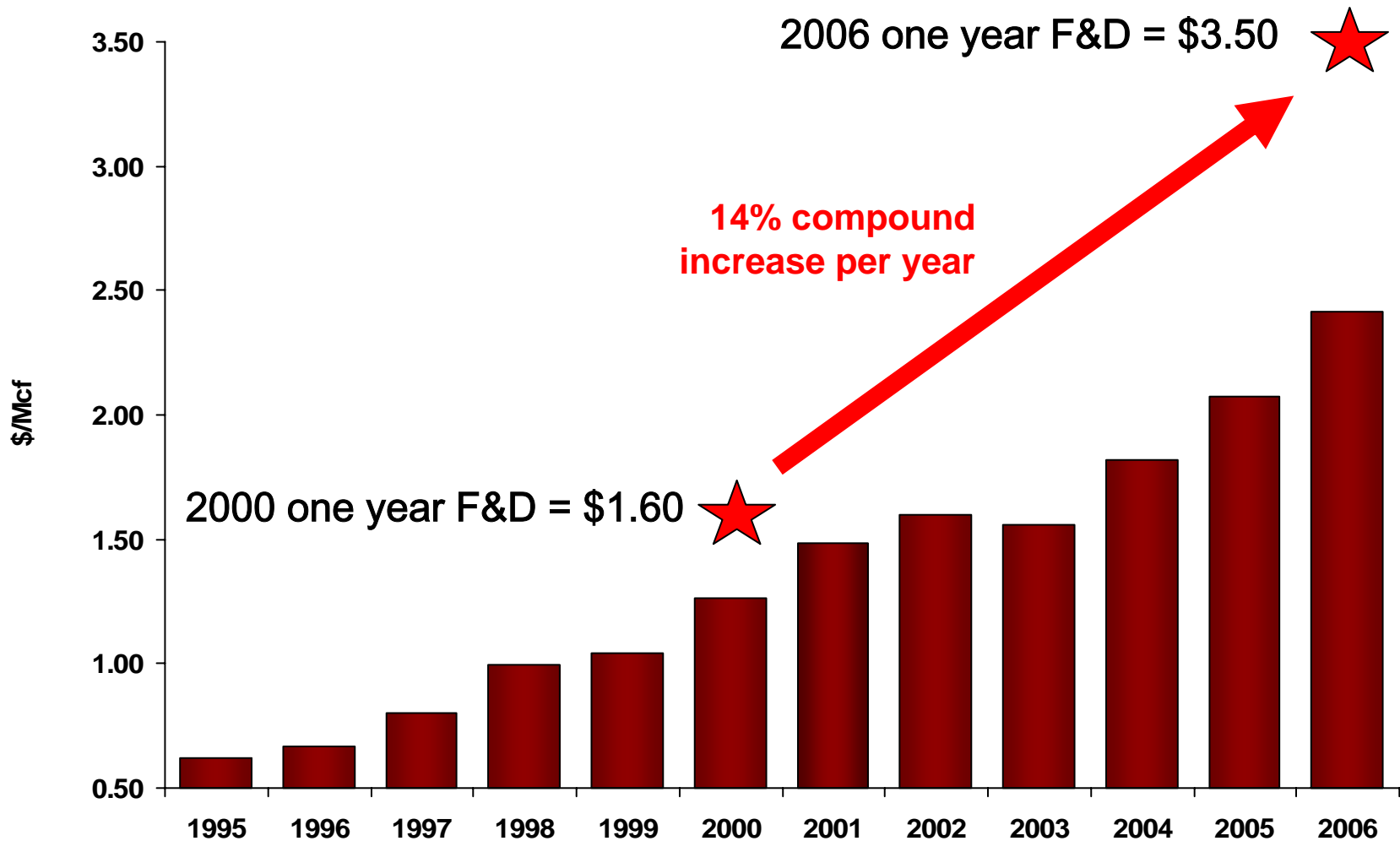
# Quality of Natural Gas Wells Decreasing Lower Grade Resource being accessed



**New wells today have 1/3 the initial productivity of wells ten years ago**



# Natural Gas Finding & Development Costs



5 Year rolling average  
Source: CAPP

# Alberta has small discoveries and lower productivity compared internationally



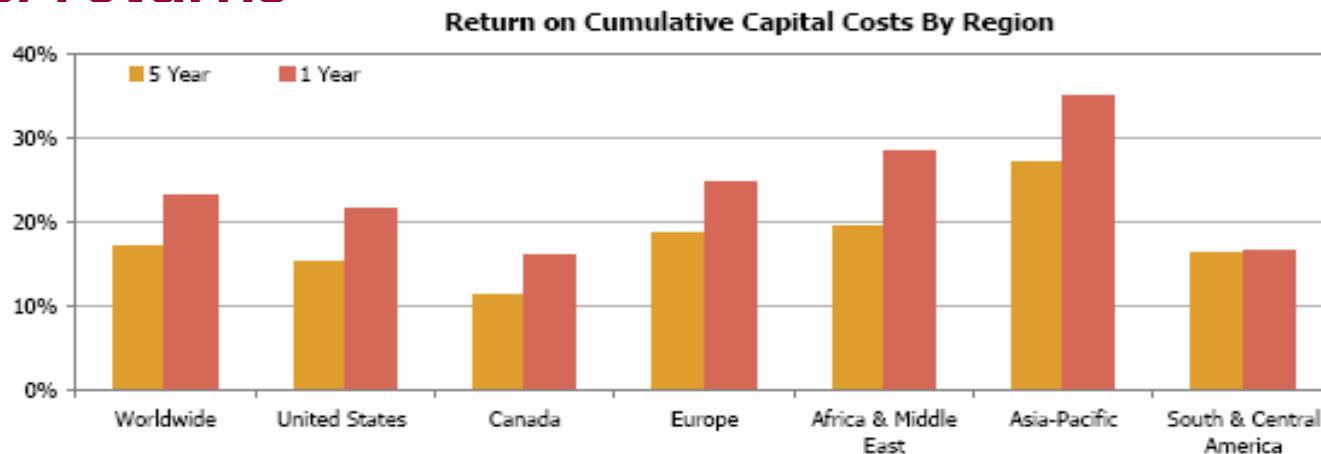
- **Discovery size**

- Alberta = 0.3 million bbls (oil) and 1.7 bcf (gas)
- World Average = 102 million bbls (oil) and 482 bcf (gas)

- **Productivity**

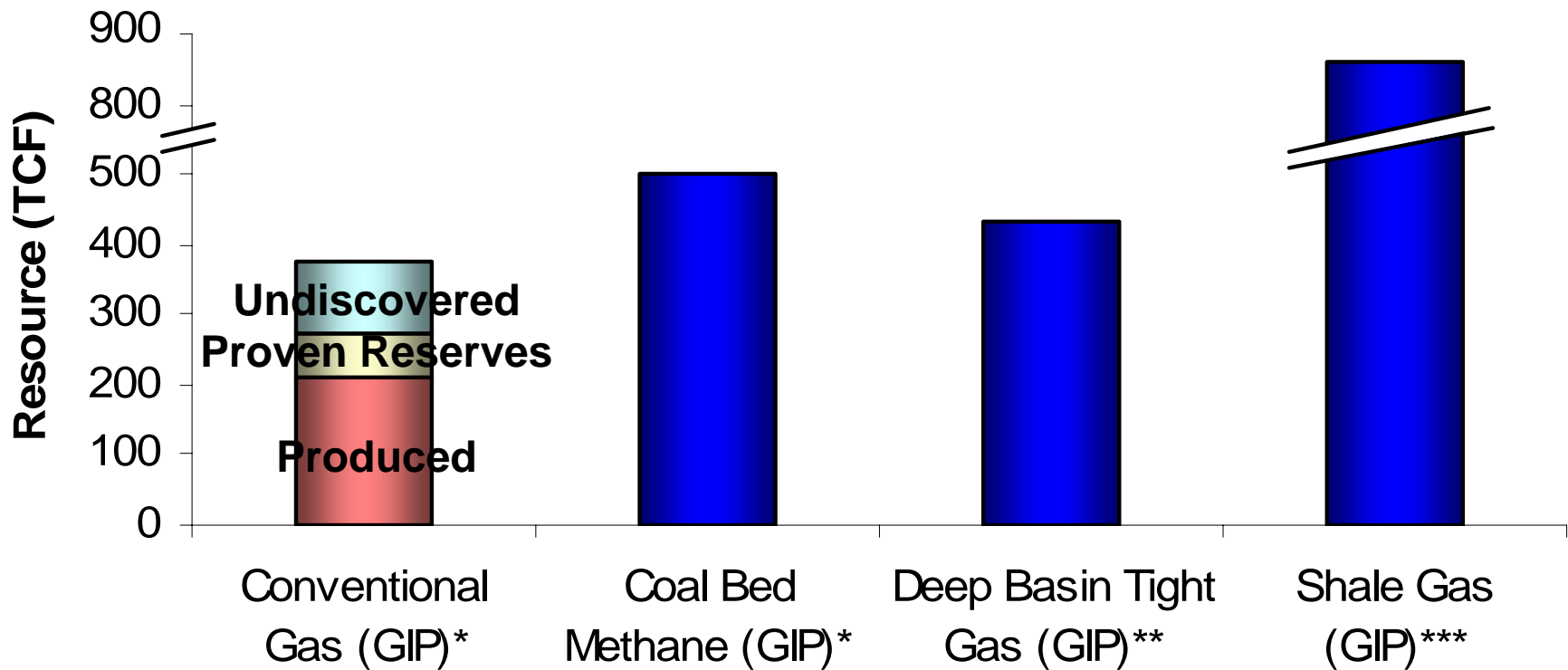
- Alberta = 18 bbls per day per well
- Alaska = 600 bbls per day per well
- Norway = 6000 bbls per day per well

- **Costs/returns**



# Alberta Gas Resources

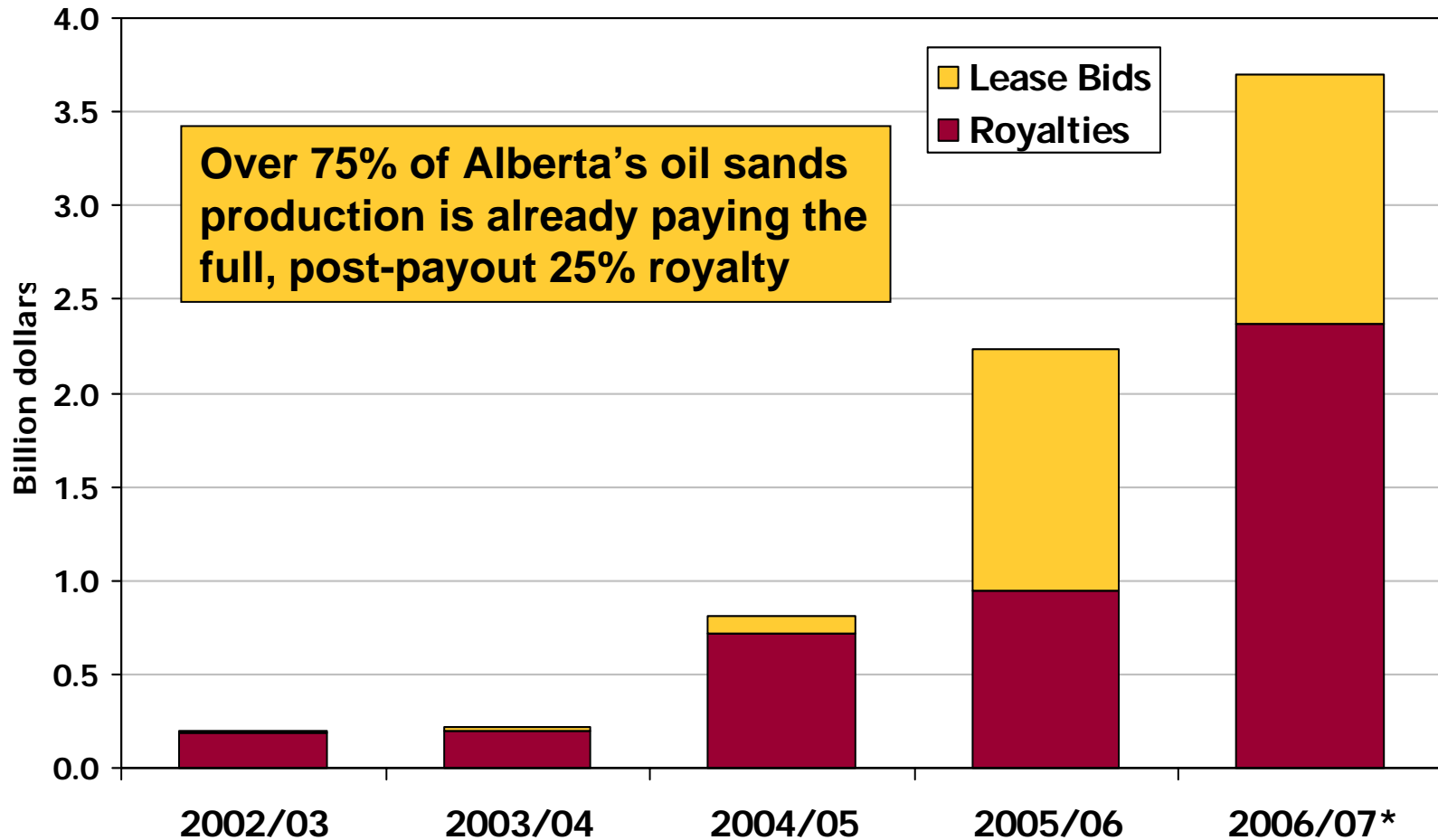
## The Future is Unconventional Natural Gas



Sources: \*AEUB/NEB Study, \*\*Petrel Robertson, \*\*\*Centre For Energy

# Alberta Oil Sands Royalties & Oil Sands Lease Bids

Higher prices mean projects reach payout earlier



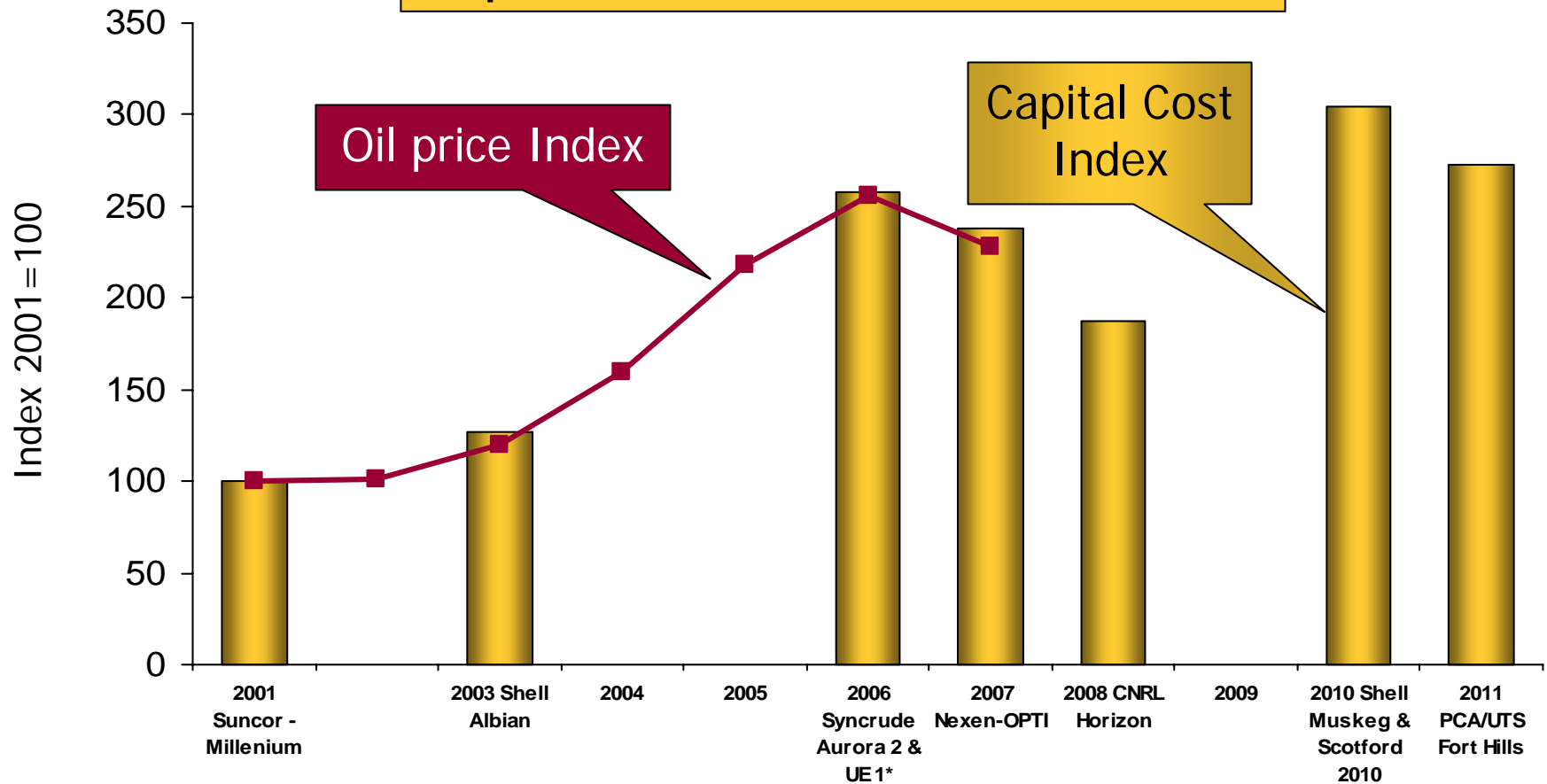
Source: Alberta Finance & Alberta Energy

\* Royalties - 2007/08 Alberta Budget

\* Lease Bids – Alberta Energy actual

# Oil Sands Capital Cost increases have been as high as oil price increases

Light oil prices are 200-250% of 2001 levels  
Capital costs are 200-300% of 2001 levels

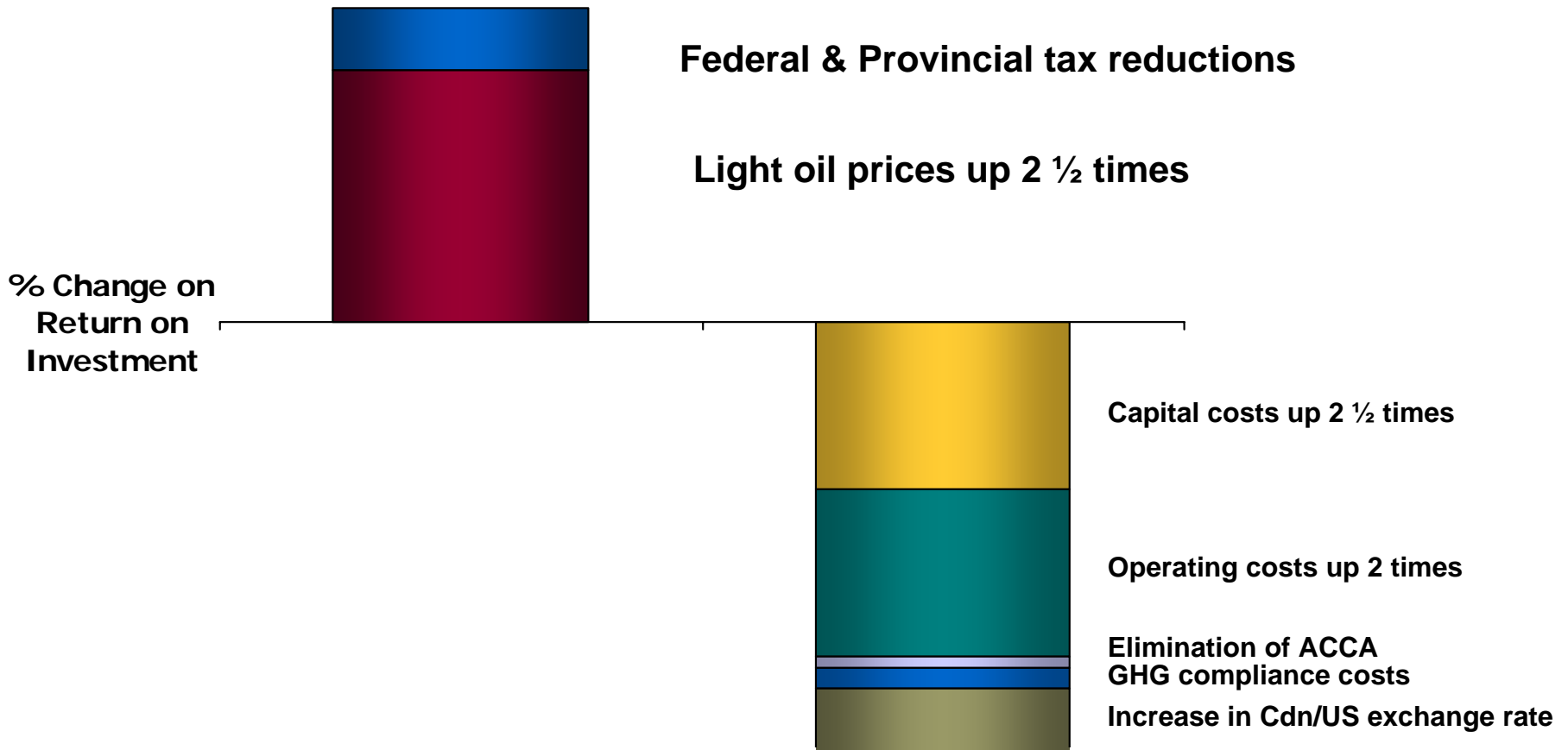


\*Syncrude includes base plant quality improvements and power  
Index = oil price or capital cost at date/oil price or capital cost in 2001

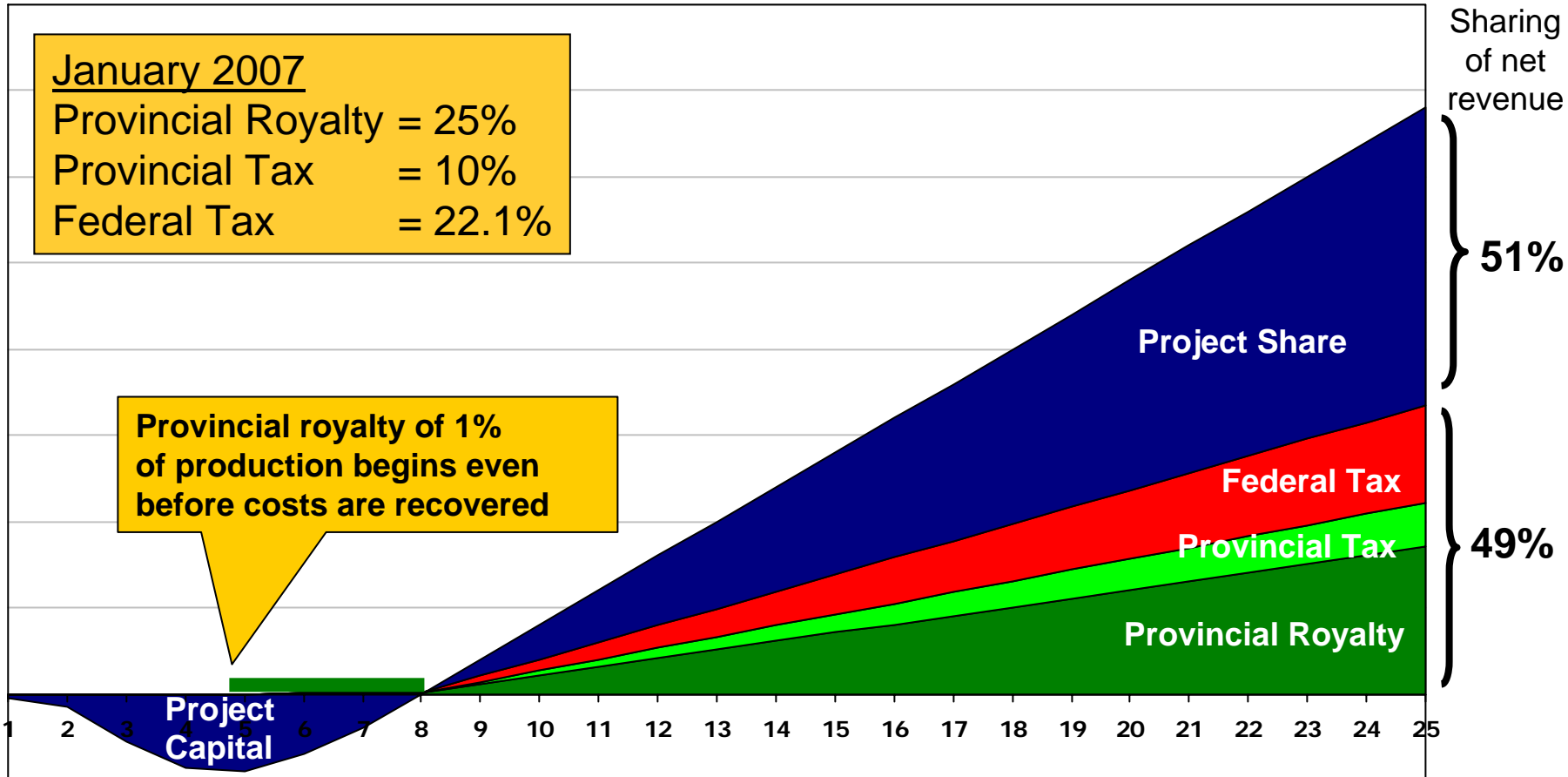
- **Environmental and Social**
  - Land use, First Nations consultation, water, etc.
- **Climate Change and Air Quality**
  - Federal and Provincial plans
- **Tax Policy**
  - Resource allowance change to royalty deductibility, lower rates
  - Income trust taxation
  - Interest deductibility changes
  - Accelerated capital cost allowance elimination
    - Impact: shown as change to 25% royalty rate to keep same NPV

Project Type (100,000 b/d size)	Effective Royalty Rate
Grassroots mining, no upgrading	27.4%
Mining expansion, no upgrading	37%
Mining Expansion with upgrading	50%
Phased <i>In situ</i> , no upgrading	27.7%

# Cumulative Potential Impact – Return on Investment on an Oil Sands Project



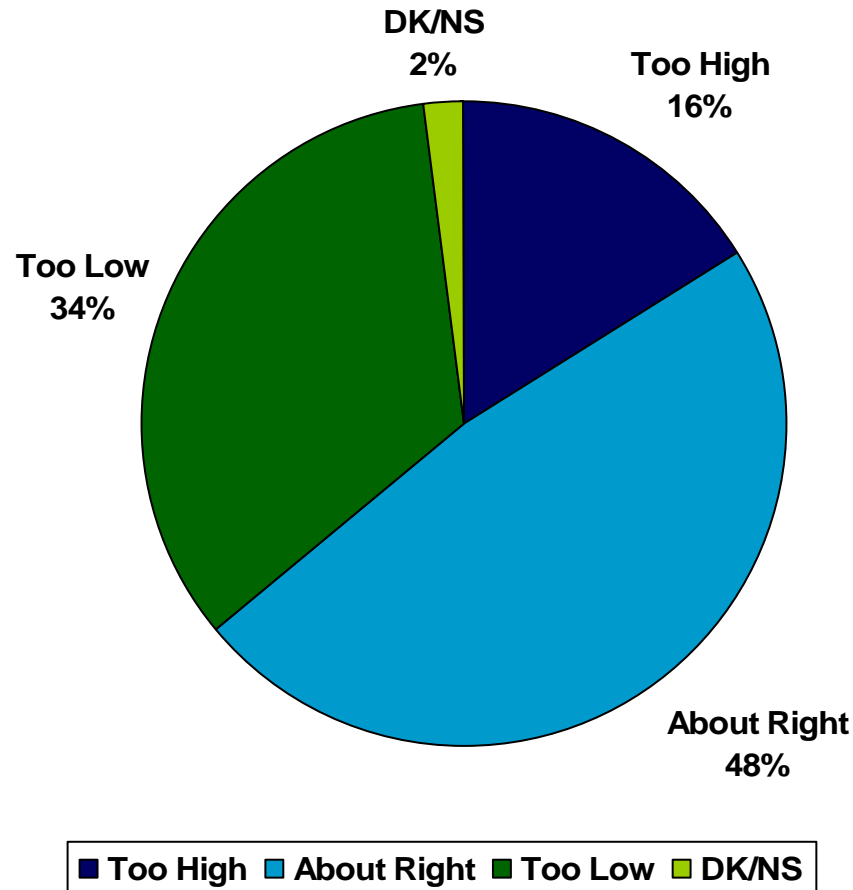
# Oil Sands Net Revenue Sharing



Note: Does not include taxes paid by suppliers of goods and services or by employees of the project or its suppliers

## Perceptions of Amount of Provincial Revenue Coming from Oil and Gas (aided)

*The government actually received 40% of their total yearly revenue from the oil and gas sector for the 2005/2006 fiscal year. This is the equivalent of 14.3 billion dollars. Knowing this, do you think the revenues that the government collects from the oil and gas sector are too low, about right, or too high?*



## Perceptions of Total Government Contributions of Oil Sands

*Once an oil sands project has recovered its costs and is paying the higher royalty rate, about half of the net revenue generated by the oil sands project is paid to governments in the form of royalties and taxes. Do you think that this level of sharing of net revenues is too low, about right, or too high?*

