

ALBERTA ROYALTY REVIEW PANEL – PRESENTATION MAY 24, 2007

BACKGROUND

My name is Allan MacRae. I am a Professional Engineer. From 1984 to 1991, I was involved in the management of the Syncrude, OSLO and PCEJ oilsands projects.

The Suncor mineable oilsands plant started production in ~1967 and the larger Syncrude plant in ~1978. In the 1970's and 1980's, many other surface-mineable oilsands projects were proposed and many hundreds of millions of dollars were spent on planning and engineering, but all of these projects were shelved. Some of the shelved projects include Home Oil, PetroFina, Alsands (Shell et al), Canstar (PetroCanada et al), Kearl Lake (Mobil), Syncrude Expansion, and the OSLO Project. These projects died due to several factors: low oil prices after 1986, poor planning, excessive government bureaucracy, lack of fiscal clarity and sudden changes in government policy.

Originally, all such large projects were required to negotiate individual Crown Royalty terms with the Province of Alberta. The fiscal terms for the different projects varied greatly. It was highly inappropriate to negotiate different fiscal terms for each individual project.

In 1988 (DOC), I calculated that there was no incentive for Syncrude to invest further capital in that oilsands project unless our Crown Royalty terms were significantly revised. I presented these findings to the Syncrude Management Committee and on December 14, 1988 we established a Fiscal Terms Task Force to pursue this matter.

This work was subsequently assigned to an industry-wide committee under the Alberta Chamber of Resources. As a result of these efforts and with the cooperation of both provincial and federal governments, new comprehensive fiscal terms for the Alberta oilsands were adopted in ~1996.

Also included in this new fiscal regime was the Accelerated Capital Cost Allowance (“ACCA”).

The ACCA had existed previously for mining projects and was called Class 28 Capital Cost Allowance. Class 28 was first applied to a \$1.2 billion capital program at Syncrude that was built in the 1980's.

In 1985 (DOC), I co-authored with Dr. David Devenny the paper that advocated the use of Class 28 for this project. The oil price collapse of 1986 was a devastating blow to oilsands mining projects. However, the implementation of Class 28 made the difference between financial success and failure for this major capital program.

Canadian governments have been quick to attack oil industry profits during periods of high oil prices, but have been remarkably silent when prices dropped precipitously, as happened in 1986 and again in 1998. Also, governments should consider the huge increases in capital and operating costs that have recently been experienced by the oilsands industry.

The Federal government recently eliminated the ACCA, but only for oilsands projects – it is still available for other mining projects. This move was extremely unwise and unfair. The ACCA was an important component of the carefully-conceived oilsands fiscal package that was agreed to in good faith between industry and both levels of government in ~1996.

RECOMMENDATIONS

Companies pay taxes and royalties to governments and receive return on investment from their Net Cash Flow (after paying all operating and capital costs). The use of any CCA rate other than a true 100% (equivalent to expensing all capital) causes companies to pay tax on cash they have not yet received. Allowing companies to recover their capital investments as spent is a wise move for governments - in most cases, governments will receive greater tax and royalty revenues from these projects; they will simply receive these revenues at a later date.

Rather than penalize the oilsands industry as it recently has done, the federal government should restore the ACCA to the oilsands and extend its application to other Canadian industries.

The Available-For-Use rules are similarly ill-conceived and should be eliminated.

The current fiscal terms for Canadian oilsands are appropriate for this high-cost industry. Even under this enlightened fiscal regime, some new oilsands projects could fail. Detrimental changes to the oilsands fiscal regime will increase the risk of such failures. There is no need to repeat the mistakes of the past – huge amounts of money were lost on failed projects in the 1970's and 1980's, in no small part due to excessive government take of projected net cash flows.

Economic success is fragile, and is easily destroyed by fiscal uncertainty. Leave the existing oilsands royalty regime intact. The elimination of the ACCA by the federal government was extremely unwise. This Review Panel should recommend ways in which the Province of Alberta can cause the federal government to restore the ACCA. Alberta should not compound federal errors by making further modifications to the Alberta Crown Royalty regime for oilsands.

Thank you.