

Royalty Review Impact on Alberta

My name is Jim Mullis, and I am the Director of Business Development – Alberta for Crane Supply, out of Calgary, AB.

The royalty review, put into place by Premier Ed Stelmach will if allowed to run its course, and buys into some of the innuendo being put forward will have a huge impact on the oil and gas sector of business, and have bottom line implications on Crane Supply.

Crane Supply is a leader in the supply of steel pipe, flanges, fittings and valves to the oil and gas industry, Crane has been in business for over 100 years in Canada and is a proud employer in Alberta having 100 employees, contractors contributing to the strength of Alberta.

Oil and gas revenues that flow to the provincial government have allowed for the retiring of debt in our province, and have also provided employment for the bulk of Alberta citizens.

Oil and gas is the economic engine that drives our economy, and even the vast majority of non oil and gas sector business still generate a large percentage of the revenue indirectly from oil and gas dollars.

I am neither an economist or a researcher, I am employed in the energy sector in Alberta and have been for decades, I am not offering hard facts as far as percentages, increase/decrease, but from experience in the industry and a forward thinking perspective to increase the Alberta Advantage.

The royalty gathering process is indeed cumbersome, and should be reviewed, however it should be pointed out, and demonstrated and put to the people of Alberta that there is in any industry a cause and effect to rising commodity prices. This forum of gathering public input is invaluable to gauge the commitment by the resource owners, i.e. Tax paying Albertans to insuring fair market value for our commodities. This has been addressed by the government in the sliding scale of royalties. However, as an Albertan first, I would like to see economic modeling, done in concert with the Oil and Gas Producing companies to establish a rule, and law of diminishing returns for incremental increases in the royalty rate. I know there are economists and researchers who can tackle this and come up with models that then can set the bar for changes to royalty structures.

The first area I would like to address is the Oilsands and associated programs.

It is clearly demonstrated the input or capital costs associated with bitumen recovery is astronomical, whether it is the mining, or a SAGD project. Start up costs are increasing daily and the companies are taking unprecedented risks in developing this resource. Technology is playing a huge role in this, and seeing that the Alberta Government has

made concessions and breaks available to companies who are surging ahead on these exciting and beneficial to our economy, projects.

Changing the front end royalties on this resource will have a huge impact on the feasibility of projects, and under the current structure, we are seeing investment into Alberta the likes have never been experienced before, by allowing investors, we can not be misled that they are not the driving force to the expansion, must feel secure and appreciated in order to invest in any project. With the huge globalization focus on our primary industry, investors have unheard of prior opportunities to invest, if we become a marginalized investment climate, due to untenable royalties, or just an anti business climate, we will all lose. Therefore, it would be beneficial to see the royalty remain as is for the expansion of this newly expanding area, and have the world look to Alberta as the number one business climate to invest with stability and security.

That applies to the sector that is bringing the unprocessed bitumen to the surface; one issue that must be addressed is the processing of this into synthetic crude oil. History has demonstrated many times over that the areas that export unrefined raw materials out of their jurisdiction will enjoy prosperity for the short term, but will experience quick decline in the future.

Bitumen processing to saleable crude oil must be a made in Alberta priority, we need to entice the industry to build the upgraders, and secondary treatment facilities in Alberta. This will generate income and secure employment for all Albertans for generations to come. Investors will flock to this initiative given our forward looking vision, and taking control of our resources, bearing in mind the requirement for a world class rate of return for every dollar invested.

Oil Sands are the future and economic reality that will drive Alberta; we cannot afford to impose road blocks, and hurdles that will slow this down. It is imperative that this industry be allowed to grow and expand at a strong pace, and Crane Supply looks forward to being there to see it through.

Conventional Oil and Gas

This sector has been hard hit by 3 main issues.

Number one – The Federal Government issuing a retraction of the trust fund legislation that allowed the funds to disperse profits to unit holders, and pay a lessened amount of corporate tax. The benefits to investors is obvious, however there has been a un-forecasted backlash to this legislation in that it has created a void for the small companies who are the backbone of the industry to raise capital, and also to have a realistic opportunity to sell the companies to the larger trust companies. Junior oil and gas companies are the life blood of the industry, and have very drastic swings in the overall economy of our industry. They have the ability to respond quickly to market trend, pricing, and available properties that do not fit into the large corporate world of the majors. This flexibility has assisted the Alberta economy in riding out the ups and downs

of any given commodity and allowed for year over year growth. Having the exit strategy of these companies, i.e.: ability to sell company once the 3,500 to 5,000 BOE a day level is reached has taken the edge off the junior oil companies in the investor's eyes. The government of Alberta has an opportunity to work in conjunction with these juniors to stabilize the market and get this valuable business sector righted.

Number 2 – The KYOTO accord has been very detrimental to our industry, mainly due to the uncertainty surrounding Canada's involvement, this is not the forum to discuss this contentious issue, but is brought forward as an idea to keep in mind, when moving to the next stage of the process re: Royalties and the cause and affect of change.

Number 3 – The majors have imposed a self policing action on all aspects of supply to them, rising costs, well documented in the papers, and trade journals has caused the majors to slow their capital budgets in conventional oil and gas to a standstill. We are just now starting to see the increase in activity, but given the aforementioned points anything that causes a bump in the road will have a detrimental impact on Alberta.

NOTE to number 3 Crane Supply along with other businesses in our sector also had large increases in sales and services to the oil and gas sector, but it was solely due to the rising cost of our base material, steel, the has actually in the last 3- 5 years been an erosion of margin in our sector of 7 – 10 %.

Therefore as a representative of a company that earns its livelihood in the Alberta market place, please consider the above issues, and others put forth by other presenters, the Alberta Advantage and future is depending on your fair, and educated conclusions, and I sincerely hope that no backwards pressure is applied to our primary industry.