

Presentation to the Royalty Review Panel
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Executive Summary

In 1997, with the formation of the Generic Oil Sands Royalty Regime, royalty payments by the oil companies were almost completely eliminated in the initial period of production until the entire capital of the cost of the oil sands project was recouped by the owners. At the time, it appeared prudent to make such an arrangement to encourage continued growth of the Alberta oil sands. This incentive left Albertans essentially paying for nearly 25% of the capital cost of the projects, through the reduction in royalties, while oil sands owners recouped the capital cost of their project. Given the economic and political situation at the time the Oil Sands Royalty Regime was enacted the royalty formula made sense.

However, over the last decade these conditions have substantially changed. It is time to review the Oil Sands Royalty Regime. Oil sands projects no longer need incentives to be viable. In fact, the lucrative nature of the current royalty regime is actually contributing to the unrestrained oil sands development now being experienced in Alberta.

The government is entrusted to manage Alberta's oil sands resources effectively and efficiently and ensure the best return is received by Albertans for the resource. It is imperative that the Government of Alberta reviews the current oil sand regime now and makes appropriate adjustments to ensure Albertans will continue to receive a fair return for their oil sand resources.

This presentation addresses the main points that I made regarding the current conditions in the oil sands industry, my major concerns with the current oil sands royalty regime and a specific proposal to modify the oil sands royalty regime presented in the recommendations at the end of the paper.

The proposal allows oil sands project owners to continue to pay a lower royalty rate during the capital cost recovery period. However, it is proposed that the royalty revenue lost by the lower royalty rate, i.e. the difference between the royalty of 25% of net revenues and the royalty 1% of gross revenues be deferred rather than lost completely. The lost royalties would be accumulated during the capital recovery cost period. Once the project owners have recovered their capital investment, the accumulated lost royalty revenues would "earn" the Albertan Government an equity position in the oil sands project. The equity position in the oil sands project allows the government to recover their lost royalties by taking their portion of the after tax revenues earned by future oil sands production of the project as secured by their equity position. The government would also receive its royalty of the 25% of net revenues after the cost recovery period as already specified in the current oil sands royalty regime.

This approach maintains the royalty tax break that oil sands project owners indicate they require in the early years of the project when risks are high. By deferring their royalty payments and accepting future revenues from the oil sands project, the Government of Alberta would be accepting some of the risk for the project. Most importantly, this proposal ensures that Albertans eventually receive a fair return on the entire oil sands resources extracted by the project rather than a fair return on only a portion of them.

Presentation

Thank you for the opportunity to make a presentation to the panel today.

I have been an engineering consultant in the oil sands industry for 30 years. I would like to make a few summarizing comments about what I have heard during the three days of presentations to the panel in regard to oil sands projects and the current oil sands royalty regime.

Following those remarks I would like to recommend a different approach to the oil sands royalty structure for oil sands projects in Alberta. This approach maintains the reduced royalty structure while the oil sands developers recoup their initial capital investment while ensuring a fair return to Albertans for their resources.

I. Background

The Alberta oil sands hold the largest potential to meet the continuing world demand for oil in an environment that is seeing conventional reserves being depleted. Some indications are that we have reached a maximum production level and can only expect a decline in the future. The vast oil resources of Alberta's oil sands offer the only hope to reverse this trend. The future of the world's oil supply lies in Alberta's hands. The oil sands have now come of age.

I would like to make the following eight points concerning the current state of the oil sands industry. At the end, I will propose a simple modification to the Oil Sands Royalty Regime that will maintain the status quo in royalty rates in the early stages of the project while ensuring an eventual fair and equitable return to Albertan's for their oil sand resources.

1. There is worldwide interest in Alberta's Oil Sands as evidenced by the recent presence of China, Norway, and France to name only a few.

a) According to a news article released by Reuters on May 18, 2007:

“More oil firms are joining the rush to tap oil from sands in Canada's Alberta province, a costly process that may secure future output but needs higher oil prices to make money.

Norway's Statoil last month agreed to buy a privately held Canadian oil sands venture for nearly \$2 billion, following deals by the likes of France's Total and China's Sinopec”

And later in the article:

“Unlike conventional oil, oil sands are deposits of bitumen, a heavy, viscous oil that must be converted into an upgraded crude oil before refineries can use it to make gasoline and other fuels.

The rise in investment comes as companies face growing challenges in finding big sources of conventional oil. Saudi Arabia is off-limits to foreign oil investors and areas like the North Sea are in decline.

The moves into oil sands offer access to oil reserves that rival those of Saudi Arabia and lie outside the volatile Middle East.”

b) Energy security is not just an American fixation, however. China has plans to vastly increase that country's energy demands over the next decade. Chinese recent involvement in Alberta oil sands includes:

- PetroChina has signed a deal with Enbridge Inc to build a \$2.5 billion oil pipeline from Edmonton to Canada's west coast to ship up to 200,000 barrels per day to China.
- China National Offshore Oil Corp. (CNOOC) put down \$150 million for a one-sixth stake in MEG Energy Corp., a tiny oil sands developer.
- In June 2005, Synenco Energy announced that SinoCanada, a subsidiary of a Chinese Energy company-the Sinopec Group, paid \$105 million dollars to buy 40 percent of Synenco's Northern Light's oil sands project in the Athabasca oil sands deposit. It is also committed to invest an additional \$2 billion dollars to help build the project.
- In January of this year, Canadian Natural Resources Minister Gary Lunn held meetings in Beijing to encourage Chinese energy officials to consider joint ventures with Canadian companies. The minister was accompanied by Pat Daniel,

Chief Executive of Enbridge Inc., a Canadian company proposing a C\$4 billion oil link between the oil sands and the country's Pacific coast.

c) In April of this year Statoil ASA, a firm owned by the Norwegian government paid \$2.2 billion to acquire Calgary-based North American Oil Sands Corp. The deal will involve the rights to more than 1,100 square kilometers of oilsands leases in the Athabasca region of northern Alberta. Statoil CEO Helge Lund said in a statement. "We are developing our global heavy oil portfolio and strengthening our marketing position in North America."

d) In February this year, India jumped into the intense competition for Canadian oil sands assets with plans to invest \$1 billion over the next 12 months, said M.S. Srinivasan, secretary of India's Ministry of Petroleum & Natural Gas. As many as four Indian companies are looking to invest in the region, with an eye to early-stage developments, said Srinivasan, who was heading an Indian delegation on a visit to Calgary, Canada's energy capital. Such Indian firms as Oil and Natural Gas Corp. and Indian Oil Corp. Ltd. have been bidders in auctions for big foreign reserves. Although there are no specific projects identified.

e) In September 2005, France's Total SA bought Deer Creek Energy Ltd. of Calgary for \$1.4-billion. Total holds an 84% interest in and operates the Joslyn 10,000-bpd steam assisted gravity drainage oil sands project northwest of Fort McMurray. The company also has filed plans for a 100,000 bpd Joslyn North mine project, and has a 50% interest in the 27,000 bpd Surmont project.

In addition, in May 2007, Total has taken the first regulatory steps toward building a multi-billion oil sands upgrader near Fort Saskatchewan, Alberta. Phase one of the project will produce 130,000 barrels of light sweet synthetic crude by 2013-2014. The second phase of the upgrader will increase the capacity to more than 200,000 barrels

The development of the oil sands is so lucrative that the two major players in the oil sands, Imperial Oil and Shell Canada are being acquired or may be acquired by the foreign parents. Both these companies are major players in the development of Alberta Oil sands from the standpoint of production and land holdings. A significant portion of these company's revenues are derived from their bitumen and heavy oil production. These company's parents are among the largest oil producing companies in the free world. Their interest in their Canadian counterparts illustrates their confidence in the continued future of oil sands and heavy oil production in the world market.

a) In April 10, 2007, the Polaris Institute reported:

"Calgary-based Shell Canada Ltd., which is a major player in the oil sands both in Athabasca and Peace River deposits, bought Blackrock Ventures Inc., for \$2.4 billion. Blackrock, also of Calgary, is active in the exploration, development and production of heavy oil in western Canada. Shell Canada is also being snapped up itself by Anglo-Dutch parent company Royal Dutch Shell PLC for \$8.7-billion

in a bid to beef up its dwindling reserves. Shell Canada owns 60 per cent of the Athabasca Oilsands Project in and wants to expand it.”

And later in the article it was stated:

“In addition to potential suitors from Asia and Europe, two U.S. oil giants — Exxon Mobil Corp. of Irving, Tex., and Chevron Corp. of San Ramon, Calif., which both need to replenish their reserves — will likely come knocking on Alberta's door one day. In fact, this month Imperial Oil, Canada's largest integrated oil company, is taking an unaccustomed buffeting these days amid speculation that ExxonMobil is preparing to buy out the 30.4 percent it doesn't already own.”

This only points to one thing. The world is at our doorstep. But they do not have their hats in their hands. Albertans do! It is clear that the entire world is lined up to invest in the development of Alberta's oil sands resources. Alberta holds the authority and the power to establish whatever royalty rates which maximize the return to the people of Alberta and not to the foreign oil companies that have been given the privilege of extracting our resources.

A few oil sands projects may be shelved for the time if the oil sands royalty regime is modified. However, one thing is guaranteed, there will be many others who will ready to continue with their proposed projects and even more domestic and foreign oil companies that will be prepared to take the place of those who leave.

2. The oil companies are not here because there is a favourable royalty system in Alberta. They are here because there is a there are large oil sands deposits in northern Alberta and there is plenty of money to be made.

The oil sands royalty system may have had some effect on the increased development plans for the oil sands. However, there were other extenuating circumstances that have occurred and are still occurring that probably affected the move to develop the oil sands than just the royalty system.

In a paper entitled “Alberta's Oil Sands: Update on the Generic Royalty Regime” prepared by Robert Mitchell, Brad Anderson, Marty Kaga, and Stephen Eliot, of Alberta Department of Energy which was presented at the 7th UNITAR Conference October 29-31, 1998,

This paper states that

“The expected increase in oil sands investments is due to a combination of a stable, consistent, and clear fiscal regime (tax and royalty), improved technology, lower operating costs, and strong market demand.”

Since that statement was made oil has increased four-fold. The obvious result has been an enormous increase in oil sands investments predominantly in response to this strong market demand and only marginally to the fiscal regime.

The generic royalty system now in place in Alberta was enacted by the Alberta Cabinet on September 24, 1997. At that time, new oil sands investment was at an all time low. The objectives of the new regime were in part to

“Accelerate the development of the oil sands while ensuring a fair return to the resource owners – Albertans” and to “Facilitate development of the oil sands by private sector companies. Development must occur because businesses expect to make a reasonable profit from the venture.”

In 1997, WTI prices were at \$17 - \$18 per barrel. The enactment of generic oil sands royalty regime was “*designed to support the major investment needed to develop the oil sands resource.*” The royalty system was part of a step by the Alberta government to “*establish a framework that should encourage new oil sands projects rather than participating directly*”.

Over the two years following the initial announcement of the generic oil sands royalty regime in 1995, the oil sands industry “*announced plans to invest an additional \$19 billion in oil sands over the next 8 years.*” These announcements also coincided with a sharp increase in the price of oil. In 1994 oil prices had hit a low (WTI approximately

\$14 per barrel). Oil prices began to soar again and between 1995 and 1997 the price of a barrel of WTI had risen nearly 80 percent.

The announcements of new capital investments in oil sands appears to reflect the increase in the price of oil as much as any effect the new royalty regime might have had. In 1998 world oil prices took another slide eventually hitting the lowest level since the inception of OPEC. Although the new oil sands royalty regime remained in effect, investment in oil sands stopped again. In 1999, oil prices surged again due mainly to production cuts by OPEC members. In 2005, the price of a barrel of WTI had reached \$45 per barrel, a price that had been seen only in the first half of the 1980's when the price of oil rocketed in response to the Iranian Revolution

Although the generic oil sands royalty regime may have contributed to the increased investment in the oil sands it is clear that it was not solely responsible for it. The fact is, not only was there massive development in the oil sands during the period 1995 to 2007, but the entire Canadian oil and gas industry was expanding at a rapid rate. This week the Globe and Mail reported that StatsCan said:

Between 1997 and 2005, investment in Canadian oil and gas extraction surged 240 per cent from \$18.9-billion to \$45.3-billion, exceeding all other industries. The value of oil and gas production leapt more than 245 per cent to \$108-billion.

Employment in the upstream sector jumped from 107,000 in 1997 to around 177,000 in 2005. "The majority — 75 per cent — of the jobs were in Alberta, with its vast oil and gas reserves,"

Today with the world price of oil fluctuating between \$50 and \$75 renewed interest in development of Alberta's oil sands is overwhelming. The Alberta Government reports that:

C\$87 billion (or US\$74 billion) is committed to oil sands development to 2016 and close to 70% of the oil sands remain open for exploration and lease.

In the 1990's there were only four oil sands projects of any substance operating in Alberta: Syncrude, Suncor, Cold Lake and Shell Peace River. Several more projects have been constructed (Alberta Oil Sands Project (Shell)) or are being constructed notably the Horizon Project (CNRL) and Jackpine Project (Shell) and numerous smaller in-situ projects including OPTI Canada (Nexen), Firebag (Suncor) By June 2006, the Alberta Department of Energy reported that there were a total of 29 companies representing 61 projects approved under the Mines and Minerals Act and the Oil Sands Royalty Regulations 1997, as amended.

It is time for Alberta to establish a new oil sands royalty system. Oil sands project no longer needs government incentives in the form of royalty holidays to encourage its continued growth.

3. Both Ottawa and Washington have become aware of the oil sands industry and the critical part that it will play not only in the Canadian economy but sustaining our neighbour to the south's continuing demand for oil.

Until the 1990's, it was a common joke around the oil sands industry that when energy representatives made a trip to Ottawa for discussions, the ill-informed politicians would invariably inquire about how the pilot plants were operating in the oil sands. The awareness of the critical nature oil sands plays in meeting the overall demand for oil in North America is now the focus of politicians in both Ottawa and Washington.

The Energy Information Administration of the U.S. Department of Energy reports in 2000:

“The United States produced 72 of the 98 quadrillion BTU's of energy that it consumed in 1999. We are self-sufficient in virtually all our energy resources, except oil, of which we import 52 percent of our net requirements, and natural gas, of which we import 15–16 percent net, primarily from Canada.”

According to statistics from Gibson consulting, Canada is the largest importer of oil to the United States (18%) in 2005, followed by Mexico (15%), Saudi Arabia (12%), and Venezuela (10%) and. It is inevitable that the United States dependence of foreign oil will continue to grow. With declining reserves of conventional oil in Canada, the US is looking to Alberta's oil sands to meet their needs.

According to an article in Canwest News published February 04, 2006:

“U. S. awareness of Canadian oil supplies jumped markedly in 2005-2006, partly because of advocacy by officials at the Canadian embassy. The opening of the Alberta government's Washington office, headed by former provincial energy minister Murray Smith, has also had a major impact.”

In article in Maclean's magazine reported on the Canadian Encyclopedia website:

“Since taking office in 2001, U.S. President George W. Bush has spoken repeatedly about the need to ensure America's "energy security." In his National Energy Policy, outlined four years ago, Bush specifically mentioned Alberta's oil sands as a key building block in his plan to ensure American refineries never run dry.”

The National Energy Policy Development Group, created by Executive Order on January 29, 2001, that was chaired by Vice President Richard Cheney. In May 2001, the group produced a National Energy Policy. Among several recommendations the NEPD recommended that,

“The President direct the Secretaries of State, Commerce, and Energy to engage in a dialogue through the North American Energy Working Group to develop

closer energy integration among Canada, Mexico, and the United States and identify areas of cooperation, fully consistent with the countries' respective sovereignties."

On April 7, 2003 Energy Secretary Spencer Abraham addressed a major gathering of Canadian business leaders in Washington. The Secretary went through the list of areas in which Canada is important to the United States' energy needs. The oil sands were on the top of his list.

On the website *Ask the Whitehouse* Samuel Bodman, US Secretary of Energy when asked What is the likelihood that Canada can assist in providing some relief to US need for oil? Responded.

"Actually I just had the opportunity to visit the oil sands in Alberta, Canada, a few weeks ago. I'm proud to say that I was the first U.S. Energy Secretary to actually pay a visit there. And I was tremendously impressed by the scale of the operations that go on there.

Nearly 175 billion barrels of oil are located in the sands. Northern Alberta, home of the oil sands, holds the world's second largest oil reserve, behind only Saudi Arabia.

Over the last 40 years the Canadians have overcome many technical difficulties to tap this resource and today the oil sands are producing more than a billion barrels a day of crude oil.

Today's rising oil prices are making this resource more attractive than at any time in the past. More than \$100 billion in private sector investment is now going into expanding the production of synthetic crude oil from the Oil Sands.

*Their output is expected to quadruple over the next 15 years to four million barrels a day. The United States is the natural market for much of this production and the Canadians are willing to work with us to make that happen. **Additional pipeline and refinery capacity is needed on both sides of the border to make the best use of the output from the sands but I believe both countries are committed to making that happen.***

On August 17, 2005, Barrie McKenna of Alexander Oil and Gas Connections reports

It might be the lofty price of oil, the emergence of China as a voracious consumer of a scarce resource, or perhaps the fly-fishing. But US Vice-President Dick Cheney is coming to Alberta, and a visit to the oil sands is high on his agenda. The trip slated for September is being billed as a mix of business and pleasure for the former oil executive and acknowledged White House energy guru.

He's expected to tour one of the major oil sands projects in Fort McMurray, meet Deputy Prime Minister Anne McLellan, speak to a gathering of the conservative Fraser Institute in Calgary, and steal away to an undisclosed location for a little hunting and fishing, according to Canadian and US officials.

Mr. Cheney would be the highest-ranking member of the Bush administration to make a pilgrimage to the oil sands -- home to the largest reserves of crude outside Saudi Arabia. US Treasury Secretary John Snow was there in early July at the invitation of Canadian Finance Minister Ralph Goodale, and returned apparently impressed by the scope of existing production and its potential for the future. Officials are also trying to convince US Energy Secretary Samuel Bodman to come have a look.

The visits mark the culmination of a long and aggressive campaign by Ottawa and Alberta to convince Americans that the oil sands are no longer a costly pipe dream. They're real and they represent one of the emerging sources of crude for a world anxiously wondering where they'll get the increasingly expensive commodity.

"With billions of barrels of potential oil there, people are starting to stake out their ground," said Frank Verrastro, a former oil executive, top government energy official and now director of the energy program at the Centre for Strategic and International Studies in Washington.

"The visit is a recognition of the strategic importance of the resource and the bilateral relationship with Canada."

Unfortunately, Mr. Cheney postponed his trip due to Hurricane Katrina and eventually cancelled a scheduled September 2005 trip to the oil sands. Although never seeing the oil sands first hand. Mr. Cheney called Canada's oil sands "a pillar of sustained North American energy and economic security."

On January 18, 2007 it was reported by CBS news that:

"U.S. and Canadian oil executives and government officials met for a two-day oil summit in Houston in January 2006 and made plans for a "fivefold expansion" in oilsands production in a relatively "short time span," according to minutes of the meeting obtained by the CBC's French-language network, Radio-Canada."

Alberta oil sands production is well on its way to placing Canada among the world's top five producers of crude oil. The proximity of this growing source of supply is a highly positive development for the U.S. and indeed the world.

The conclusion of a study entitled “*Canadian Oil Sands: A New Force In The World Oil Market*” prepared by a Joint Economic Committee Study for the US Congress and released June 2006, stated that:

“While the amounts of oil produced are not large enough to achieve energy independence for North America, they represent a growing counter weight to OPEC’s market power and as such will gradually increase our energy security.

*Extracting oil from Alberta’s sand is more costly than conventional oil production and faces challenges in increasing the scale of output, particularly in the presence of low-cost producers with greater output flexibility. **But, as long as those who hold market power are opting to reap prices far in excess of the cost to develop the oil sands, they also are feeding the growth of a potential industry giant. High oil prices help to overcome short-run increases in production cost while Alberta’s input markets and infrastructure adjust to a larger scale of oil sands production. In the long run, the cost is likely to stabilize and may even decline, leading to ever larger rates of oil output. Numerous sources have pegged the cost of oil sands production at about \$25 per barrel.***

Not only are the oil companies devoted to developing Alberta’s oil sands resources but also the governments of Canada and the United States are in strong support. Regardless of what form Alberta’s oil sands royalty regime oil sands development will continue in Alberta. The Alberta government must step forward now and modify the oil sands royalty regime so that the maximum return for their oil sands resources is ensured to the people of Alberta.

4. These resources are owned by the people of Alberta and they have the right to get a return on their resources.

According to the Alberta Oil Sands Royalty Guidelines dated November 30, 2006:

*Alberta's project-based generic oil sands royalty regime operates on the principle of revenue minus cost. Royalty is paid at one of two rates, depending on the project's financial status. The deciding factor is the project's **payout date**.*

A project has “reached payout” once its cumulative revenues have exceeded its cumulative costs.

Before the payout date, the applicable royalty is 1% of the project's gross revenue. This low rate recognizes the high costs, long lead times and high risks associated with oil sands investment. It prevents undue strain on the developer's financial resources during the most critical, start-up stages of the project.

After the payout date, the applicable royalty is the greater of

- *1% of the project's gross revenue, or*
- *25% of the net revenue for the period**

This feature of the generic regime links the Crown's return to the success of the project. The Crown does not receive a significant share of royalty until a project is profitable and the developer has recovered his investment. This approach encourages developers to innovate and maximize the efficiency of their operations.

*When an OSR project reaches payout, its **royalty rate** and **reporting obligations** change. In addition, the post-payout royalty rate is variable. For example, if revenues drop off or if expenses increase as a result of an approved expansion, the “1% of gross revenue” rate might apply even if a project had reached payout in previous years. Royalty payment at 25% of net revenue would recommence when it exceeds 1% of the project's gross revenue. **NB: Once a project reaches payout it is always considered to be in payout, even if it pays royalty at 1% of gross revenue for some period of time.***

Several oil company presentations referred to having a fair royalty regime in Alberta. The essence of a fair share of Alberta's resources revenues for Albertans is defined in the Alberta Royalty Review 2007 Royalty Information Series Royalty Information Briefing #2.

A Fair share is a term used to represent the government share of resource revenues. The share is expressed as the portion of the revenue from production after the investor has recovered all costs, including a competitive rate of return on investment.

The brief further states determining a fair share is a subjective concept and a value judgment:

The price a jurisdiction charges, through royalties, bonuses, taxes, and fees for the development of its natural resources is its share. Whether this price represents

a “...fair share is inherently a subjective concept. At best, it is a value judgment or opinion that can neither be refuted nor proven”. While the definition of fair share can include royalties and taxes as well as other considerations such as investment activity and employment, it is most common around the world for the oil and gas industry and in the economics literature to define a jurisdiction’s fair share as the sum of royalties, corporate income taxes, bonuses, and land rental fees. Even with this definition, there is an implicit assumption of a level of investment and sector activity sufficient for a healthy industry and a healthy economy.

There are in the order of 1,000 oil and natural gas fiscal systems around the world, representing some 170 countries. All of these systems reflect that jurisdiction’s attempt to define fair share. While this may indicate that the task is extremely difficult, almost all jurisdictions follow the same basic approach⁴. This provides a benchmark against which to assess what others do and to judge what is appropriate.

Finally the brief discusses with respect to what is an appropriate return to Albertan’s for their resources, the bulletin states:

*In determining the “appropriate” share, competitiveness is a key concept – **if the share is so high that investments are made uneconomic, resources will not be developed.** Alternatively, if the share is too low, there are two basic consequences: (1) resource owners will be receiving less benefit than they are entitled to and (2) a share that is too low can result in inflation and other pressures related to the economy’s ability to efficiently deliver the necessary inputs. These consequences **can threaten an economy’s overall competitiveness, including the competitiveness of the energy sector.***

*In a nutshell, the determination of what share is appropriate can be compared to the pricing of any commodity. **The price ultimately charged depends on the quality of the product being offered,** compared to similar products offered by competitors, and on the price that other competitors charge for their product. From the study of the 1,000 fiscal systems referenced above, jurisdictions with attractive resources – higher quality products – capture a higher share.*

In a footnote the brief states:

To help ensure that policy makers are fully aware of what Albertan’s want the Government of Alberta established the Royalty Review Panel and public process to hear from Albertans directly.

*While competitiveness and inter-jurisdictional comparison can go a long way toward identifying the appropriate share, in the final analysis, **the share is ultimately determined by what resource owners want.** That is, on the balance that resource owners, directly, and indirectly through their political*

representatives, make among related issues such as royalty and tax rates, pace of development, incentives, investment activity, economic diversification, and employment.

Driven by the soaring world oil price, the burgeoning profits reported by the oil companies and the chaotic rush to develop the oil sands, Albertans, as the resource owners, want the oil sands royalty regime re-evaluated. Albertans deserve a bigger piece of the pie. If re-evaluating the royalty regime will slow down oil sands development, so be it. The rate of developments needs slowing down to let the government catch up with the infrastructure requirements. Albertans are not in a rush to see their oil sands resources disappear in the next few decades. It is obvious from the “gold rush” atmosphere that is predominant in the oil sands industry today, the government must take measures to moderate development and develop an effective and efficient plan for the Alberta oil sands.

What is most amazing is that one of the objectives of the oil sands royalty regime enacted in 1997 was to ensure the objective of the new generic oil sands royalty regime that “Alberta will not directly participate through grants, loans, loan guarantees, or any other “special” deals.” (“Alberta’s Oil Sands: Update on the Generic Royalty Regime”, 7th UNITAR Conference October 29-31, 1998) But in fact, this was a special deal for oil sands developers. It was a gift beyond measure. In one “feel swoop”, **the new Generic Oil Sands Royalty Regime effectively eliminated an extraordinary portion of oil sands royalties due Albertans** by postponing the 25% of gross revenues and replacing it with a royalty rate of only 1 percent of gross revenues until the full capital cost of the project.

The risks of oil sands projects are further mitigated by other government incentives.

a) Scientific Research and Experimental Tax Credit Program (Revenue Canada)

Oil sands companies can claim between 20 percent and 35 percent of their eligible expenditures. Those that are publicly held can qualify for an investment tax credit (ITC) of 20 percent, which can be claimed as a tax deduction. Private companies, however, may qualify for a maximum refund of 35 percent of their R&D costs, up to the first \$2 million in qualified expenditures subject to certain limitations. This can provide a source of cash today for junior companies.

b) Innovative Energy Technologies Programs

IETP is a \$200 million commitment over five years by Alberta Energy to provide royalty adjustments to a number of specific pilot and demonstration projects that use innovative technologies to increase recoveries from existing reserves and encourage responsible, development of oil, natural gas and in-situ oil sands reserves. The program is also designed to assist industry to find commercial technical solutions to the gas over bitumen issue that will allow efficient and orderly production of both resources.

According to the Alberta Government (published on the Alberta Energy website)

Energy is the engine of Alberta's economy. Energy related royalty revenues account for about one-third (about \$14.7192 billion in 2005-2006) of the total revenue collected by the Province. These revenues help to keep Alberta's overall taxes low, and are critical to the delivery of public programs, such as health and education.

Of the total energy related oil royalty revenues received by the Alberta government, the oil sands royalty revenue represented only 6%, amounting to only \$0.95 billion on 380 million barrels of oil produced! In 2006/2007 oil sands royalty revenue is projected to increase to \$2.4 billion as production increases to 456 million barrels while. However, in subsequent years the royalty revenue is projected to actually fall to \$1.8 billion in 2007-2008 and to \$1.2 billion in 2008-2009.

5. There is plenty of money to be made in the development of the Alberta Oil sands for the oil companies and for the people of Alberta.

The Alberta Oil Sands is a gigantic oil resource owned by the people of Alberta. The Alberta Energy and Utilities Board (EUB) considers about 10 percent of the total reserves of 1,700 to 2,500 billion barrels of crude bitumen contained within the three oil sands deposits in Alberta are recoverable at current prices and using current technology.

This relates to 174 billion barrels of proved recoverable bitumen reserves which at current bitumen prices of \$US 60 per barrel amounts to a total gross value of more than \$US 10 trillion. Assuming a netback (sales net of royalties, production and transportation expenses) of approximately \$21 per barrel, this would amount to the potential net revenue of approximately \$3.7 trillion at today's oil prices.

Of course the capital costs of the projects have to be paid out of the net revenue. A 100,000 barrel per day oil sands facility would produce approximately 1 billion barrels over the life of the project. Assuming an original capital cost 5.5 billion (\$55,000 per installed barrel of production) the capital cost per barrel of total oil production would be about \$5.5 dollars. Crudely taking into account the capital costs of the production facilities there is still over \$2 trillion to be made in the production of the proven recoverable bitumen reserves.

In addition, the EUB also reckons that an additional 315 billion barrels could be recovered given the right technological advances and which increases the gross value of Alberta's recoverable oil sand resources to a staggering value of more than \$US 29 trillion dollars. This could relate to an additional \$10 trillion of gross value at today's oil prices.

However, it is not only the sheer volume of Alberta's oil sands and the state of the available extraction and upgrading technology that make development so lucrative. Development of Alberta's oil sands does not require expenditure of any finding costs. The resources are already identified. Finding costs in the oil industry vary but assuming an average finding cost in North America of \$4 per barrel, oil sands developers will collectively save an additional \$700 billion dollars developing the proven recoverable reserves identified to date that they would have to spend finding oil reserves elsewhere.

6. The oil companies have consistently told this panel that the royalty structure should be left as it is or in some cases made more lucrative for non-conventional producers.

Oil sands companies say that there is a large risk in oil sands projects and any increase in the current royalties will significantly effect the continued development and consequently the growth of the Alberta economy. This is hard to understand. Oil sands developers have experienced massive increase in the projected costs of their projects. Yet development continues at a rapid rate. These increased costs cannot be negotiated and are simply an effect of the inflated development of oil around the world and the critical demand for labour in Alberta. However, the royalty rates are negotiable and the oil companies are taking the opportunity to be criers of doom by overstating the effect of modifying the royalty regime. Adjustments to the royalty structure will have some effect on oil sands development but it will not stop its development.

Many presentations by oil companies to the panel referred to a study which assessed royalty regimes around the world. The oil companies point out that Alberta's royalty regime is far down the list when ranked with other countries in the world. When the current oil sands royalty structure is adjusted to account for the loss of significant royalty revenue in the early years of cost recovery on a project the royalty rate of 25% of net revenue is reduced to 16-17%. When this adjusted figure is taken into account it is quite likely that Alberta's royalty regime would fair much better in the world.

Oil sands projects owners have had to deal with other cost factors in their projects. It is clear from the following news releases that although significant cost overruns in the total capital estimates are being experienced by oil sands developers on new projects and by existing operators on expansion projects the companies continued to move forward and found ways to deal with the increased costs.

a) Syncrude Canada Ltd

According to a Canadian Oil Sands Trust news release dated March 4, 2004

*An updated forecast of Syncrude's Stage 3 expansion schedule and capital cost based on information provided by Syncrude as of this date. The best current estimate from Syncrude is that the project will reach mechanical completion in early 2006, rather than mid 2005, and be in service by mid 2006. **This extended completion date is expected to increase total capital costs to approximately \$7.8 billion compared to the September 2002 estimate of \$5.7 billion.***

Further in the article:

Syncrude advises that the largest capital cost increases stem from the protracted engineering phase at the beginning of the project and the underestimation of revamping existing facilities and tie-ins, which together have overshadowed the relatively stronger productivity of the green field components of the construction.

Add finally it is stated that:

The long term economics for the Stage 3 project remain adequate for Canadian Oil Sands Trust.

b) Athabasca Oil Sands Project

According to a news report posted by Seeking Alpha on July 10, 2006

Shell Canada Ltd. said on Wednesday that its C\$7.3 billion Athabasca Oil Sands Project [AOSP] expansion in northern Alberta faced big expense overruns. AOSP is a joint venture between Shell Canada Ltd. (60%), Chevron Canada Ltd. (20%) and Western Oil Sands Inc. (20%).

And later in the article

*Shell Canada did not give a target for overruns. Western said late on Wednesday that a planned expansion of the mine and upgrading refinery could cost close to C\$11 billion, **50 percent more than estimated just a year ago.***

And finally:

*Brian Straub, Shell Canada's senior vice-president, said in a statement: We see signs of a heated market for labor, materials and equipment everywhere and we must assure ourselves that we can execute successfully. **Right now our focus is on mitigating the costs and risks.***

c) Horizon Oil Sands Project (CNRL)

According to news article in the Energy Bulletin dated Nov 2, 2004

*Canadian Natural Resources says high prices for steel, fuel and labour could boost **the cost of the first phase of its Horizon oil sands project in northern Alberta by nearly 35 per cent to \$6.6-billion.***

Calgary-based Canadian Natural is just the latest energy company to experience escalating costs for major oil sands projects, but it still believes Horizon is economical even though its three phases could cost \$2-billion more than planned.

Horizon costs are definitely impacted by the rising costs of steel, the global

demand for construction and high demand locally for construction labour, chief operating officer Steve Laut told analysts Wednesday while detailing the company's 50 per cent increase in quarterly profit.

Although the costs are higher than previous estimates . . . this project is still very robust, said Mr. Laut.

7. The Famed US, Will Rogers humourist said about Land “They’re not making any more it. Well they are not making any more oil and Albertan’s should get the best value for this product.

In their book, *The Future of Oil*, Odell and Rosing note that estimates of the world oil resource base ranged from two trillion to 11 trillion, with three trillion barrels of oil being "the more realistic figure" for conventional oil, while another two trillion could be added as a conservative estimate for unconventional oil. This total of five trillion should be compared to total world oil reserve estimates around one trillion (oil industry proven and USGS identified reserves) and 2.2 trillion (USGS ultimately recoverable reserves). (2)

"To these estimated quantities of conventional oil must also be added the potential for oil resources from unconventional habitats. These are geographically extensive and include the tar sands of the Province of Alberta in Canada, the heavy oil belt of the Orinoco region of Venezuela and the oil shales of the United States, Brazil, India and Malagasy etc. High production costs and low oil prices have hitherto inhibited the inclusion of unconventional oil resources in the world oil resource figures. Now, developing production technologies, coupled with the very much higher market value of oil, convert large quantities of unconventional oil into an effective resource. The volume of this addition to the ultimate oil resource base is a minimum of two trillion (2×10 to the 12th) barrels and a maximum of unknown dimensions, given that, to date, there has been no formal search for unconventional oil and no systematic evaluation of its occurrence on a world wide basis."

While oil consumption continues to rise on a world scale, the rate of discovery of new oil reserves globally has been declining for decades. The non-conventional heavy oil resources of the world are the only hope to meet the continuing demand for oil.

8. The accelerated development of the oil sands has also put a significant strain on local governments to put the required infrastructure in place to meet the needs of the burgeoning growth in Fort McMurray.

The following references give some idea of the extreme difficulty governments at all levels are experiencing while trying to meet the burgeoning demand for infrastructure required by Albertans during boom in oil sands development. What is most ironical is that the oil companies are demanding that the oil sands royalty regime remain as it is so that they can recover their infrastructure costs without the burden of the full 25% royalty rate while at the same time the Alberta government capital budget cannot cover the costs of this provinces own infrastructure demands.

a) GRANDE PRAIRIE

According to an article in the Globe and Mail on May 21, 2007 referring to the growth experienced in Grande Prairie as a result of the oil boom.

Look at Grande Prairie more closely, however, and you see roaring economic opportunity everywhere. There is a building boom in houses, industrial traffic crowds the streets, and the city is often full of roughnecks who work drilling rigs. Especially in the key winter months, when remote locations can be reached with the ground frozen, hotels are full with energy personnel

"There is no place in Canada, perhaps North America, that has seen this much growth," Alberta Premier Ed Stelmach said in the city recently as he announced \$250-million in spending for a new hospital.

Keeping up with growth has been a challenge, locals say, the same challenge faced by Fort McMurray. One constant reminder are the bumpy streets, severely pockmarked with potholes, in part because of the cold northern climate, but largely because of the heavy trucks that roll through Grande Prairie, heading out or coming back from the prolific natural gas and oil fields that surround the city. On gravel roads in the countryside, Depression-era-style dust storms are common in summer months as trucks race across the landscape.

*In late April, city council approved a \$29-million library and art gallery building, but **the list of demands for new infrastructure is long and the needs are widely obvious.** At the Cardinal-designed regional college, a dozen or so portables sit outside to accommodate classes for students.*

b) FORT MCMURRAY

According to an article in the Globe and Mail on September 19, 2006

"The oil sands are pouring people into Fort McMurray, straining every social service and physical infrastructure. Roads, schools, health-care, housing,

recreational facilities — you name it, and Fort McMurray is grappling with providing them.”

According to a new article release through CTV on July 10, 2006

“Melissa Blake is quite possibly the only leader in Canada who says there may be too much growth in her community.

Blake, the mayor of the Wood Buffalo municipality at the heart of Alberta's exploding oilsands development, said Monday the provincial government and the energy industry must start paying to mitigate the impact in the Fort McMurray area or consider putting on the brakes.

"They need to have a broader perspective when they're going into their deliberations in support or non-support of particular projects," she said.

Monday was the first chance for lawyers representing Wood Buffalo to appear before a regulatory board that will rule on the latest proposal for Alberta's lucrative oilsands -- Suncor's \$7-billion Voyageur project. But even as they made their arguments, Blake said in an interview that Fort McMurray is already "financially unsustainable."

The population has more than doubled to nearly 75,000 in nine years, and the prospect of another \$100 billion in oilsands development over the next decade means the city just can't keep up.

The article further states that in Wood Buffalo's submission to the Alberta Energy Utilities Board

"Despite acknowledging that proceeding with the project as proposed will contribute to the existing problems, Suncor does not offer any adequate or tangible solutions. The applicant must be part of the solution to the socio-economic problems created or exacerbated by the project."

The submission points out that "Fort Mac" already has a shortfall of nearly 3,000 homes, 17 police officers and two public schools. Its assault rate is nearly twice the provincial average; its drug offences are triple.

Population continues to grow at about 10 per cent a year. A five-minute drive up Franklin Avenue yielded license plates from eight provinces.

The city needs a new water treatment plant, police station, and recreation centre and fire hall. One report estimates the area will need \$1.2 billion in infrastructure to accommodate growth -- costs that continually inflate because of the overheated economy that makes them necessary in the first place.

Blake said time is growing short for someone to step up to the plate with a solution.”

II. Mining Extraction versus In-Situ Extraction of Bitumen

There are significant differences in in-situ oil sands projects and oil sands mining projects, particularly in the Athabasca oil sands deposit.

Oil sands mining projects have the following attributes:

- Since the opening of Great Canadian Oil sands in the 1960's, most mining, extraction and upgrading issues have been resolved
- Large commercial plants have operated in the Athabasca for decades.
- The shift to hydraulic shovels and trucks seemed to have addressed the initial problems encountered with draglines and bucket wheel excavators.
- The implementation of hydraulic transport has also contributed to reduce production costs.
- Long-term production with significantly reduced continued capital investment.

Some issues still remain notably the lack of available diluent required to move the extracted bitumen and the use of natural gas which has contributed significantly to higher operating costs.

In contrast, in-situ oil sands projects can be characterized by the following:

- Although there are large commercial oil sands projects in the Cold Lake deposit where oil is much lighter, there have been much smaller -scale in-situ oil sands projects in the Athabasca such as the Surmont Project (ConocoPhillips), OPTI (Nexen), Firebag (Suncor) and none of which are full commercial production.
- The implementation of Steam-Assisted Gravity Drainage has solved many of the production problems associated with many of the extraction schemes developed in the past using vertical well bores. Other in-situ extraction technologies still in development hold much promise but have yet to be commercialized.
- The scale of the production is significantly smaller than mining operations. Consequently the initial capital investment required to bring an in-situ project on stream is correspondingly significantly less than for oil sands mining projects
- The complex geology has a much larger effect on the successful in-situ production of bitumen than it does for oil sands mining projects mining where the entire oil sands section is removed.
- Recoveries are significantly less than in mining projects.

Due to these factors, it may be warranted to continue to provide royalty and tax incentives for in-situ extraction projects while the industry continues to address the unsolved technological problems they are still currently facing.

The proposal for changes in the current Oil Sands Royalty Regulations is predominantly addresses oil sands mining projects. However, major in-situ oil sands developments (50,000 barrels per day or greater) should be included in the proposal.

III. Main Concern

My main concern regarding royalties in Alberta relates to the tax break the current Generic Oil Sands Royalty Regime allows oil sands projects during the initial years of while the developers recover the capital cost of their investment while making a modest profit.

These are not deferred royalty revenues but are royalty revenues that are lost, never to be recovered. Over the next 10 years oil sands production in Alberta is expected to double to more than 3 million barrels a day. The increase of 1.5 million barrels per day will all be under the umbrella of the 1% on gross revenue as the projects recover their capital costs. The loss in royalty revenue to Albertans could be in the order of \$ 80 billion!

A past example of the significant impact the current Generic Oil Sands Royalty Regime can have on oil sands royalty revenues was evidenced right after the new regulations were enacted in 1997. In a report entitled Alberta's Oil Sands: Update on the Generic Royalty Regime that was prepared in 1998 by Robert Mitchell, Brad Anderson, Mary Kaga and Stephen Eliot of the Alberta Department of Energy it is stated that,

“The expected decline in royalties from \$194 million in 1997/1998 to a \$50 million in 1998/1990 was the result of the immediate deductibility of massive reinvestment in the Syncrude and Suncor projects as well as the higher levels of capital spending in Imperial’s Cold Lake Project along with lower than expected prices for bitumen and synthetic crude.”

These declines in royalty revenues pale in comparison to what will happen if the current oil sands royalty regime is allowed to continue as it is. A total of 29 companies representing 61 projects have already been approved under the Mines and Minerals Act and the Oil Sands Royalty Regulations 1997, as amended. This represents billions of dollars in “subsidies” for oil sands projects for years to come that ultimately go to paying a substantial part of the capital cost of these projects. The time to act is now. The generic oil sands royalty regime must be revised now before more royalty tax breaks are guaranteed to future oil sands developers.

The current oil sands royalty regime results in a direct loss of revenues to the people of Alberta. In effect, under the current royalty regime Albertans loss in revenues equates to increased revenue in the pockets of the oil sands operators. Essentially, the money the operators save on royalties can be used to directly pay for a substantial part of the capital cost. In effect Albertans are helping to pay for an oil sand project by eliminating full royalty payments in the early stages of the project.

The Alberta Government is responsible for the managing the development and use of all resources in the province including oil sands. This management must be carried out in a

responsible and appropriate manner to the benefit of all Albertans. It is on this basis that the Alberta Government must review the current oil sands royalty tax regime with specific attention paid to the royalty tax break that is currently being offered for oil sands projects.

Although Albertans feel strongly about the loss of oil sands royalties that they are rightfully due, suddenly eliminating this royalty tax break in the cost recovery period of oil sands projects could have dire effects on the near term and perhaps on the long-term development of the oil sands.

A fair royalty structure is required to ensure that the economic return to industry is sufficient to attract their investment in capital and effort. The economic viability of projects must be established on the basis of a reasonable return to industry for the large capital investments that are required in oil sands projects. However, the economic viability of these projects must not and cannot be based on Albertans relinquishing a substantial part of their royalty revenues. That is precisely what is occurring under the current Alberta Oil Sands Royalty System.

To add to this loss in revenue, the oil sands royalties due Albertans are further reduced each time an oil sands operator reinvests in their oil sands project and the royalty rate is again reduced to 1% of gross while the additional capital investments are recovered. This reduction in oil sands royalties during periods of reinvestment further reduces the “real” royalty rate assessed on oil sands operations.

An example of the significant impact this can have on oil sands royalty revenues is reported in a report entitled Alberta's Oil Sands: Update on the Generic Royalty Regime that was prepared in 1998 by Robert Mitchell, Brad Anderson, Mary Kaga and Stephen Eliot of the Alberta Department of Energy. In the report it is stated that, **the expected decline in royalties from \$194 million in 1997/1998 to a \$50 million in 1998/1990 was the result of the immediate deductibility of massive reinvestment in the Syncrude and Suncor projects as well as the higher levels of capital spending in Imperial's Cold Lake Project** along with lower than expected prices for bitumen and synthetic crude.

Albertans stand to lose billions of dollars in oil sands royalty revenues over the coming decades as oil sands development continues to expand. This cannot be tolerated. Albertans have waited more than 50 years, since the first oil sands leases were given out by the government. Now that the world has recognized the value and viability of this resource, Albertans stand to receive a continuing reduction in their resource revenues while they basically pay for a substantial part of the cost of developing their own resources.

The royalty tax break to recover capital reinvestment may have been warranted in 1997 when oil prices were much lower. However, today when current oil prices are skyrocketing to more than \$70 barrel this part of the royalty regime must be reassessed.

The Canadian oil sands industry is operated exclusively by private companies. Neither the Canadian government nor the Alberta government have any ownership since Petro-

Canada, was privatized in 1991. The Canadian government sold its remaining 20 percent ownership share in 2004. Perhaps it is time to reconsider this position.

IV. Recommendations

In 1997, with the formation of the Generic Oil Sands Royalty Regime, royalty payments by the oil companies were almost completely eliminated in the initial period of production until the entire capital of the cost of the oil sands project was recouped by the owners. At the time, it appeared prudent to make such an arrangement to encourage continued growth of the Alberta oil sands. This incentive left Albertans essentially paying for nearly 25% of the capital cost of the projects, through the reduction in royalties, while oil sands owners recouped the capital cost of their project. Given the economic and political situation at the time the Oil Sands Royalty Regime was enacted the royalty formula made sense.

However, over the last decade these conditions have substantially changed. It is time to review the Oil Sands Royalty Regime. Oil sands development in Alberta is here to stay. Development will increase at a horrendous rate currently being experience until government takes steps to rein in the development process. Oil sands projects no longer need incentives to be viable. In fact, the lucrative nature of the current royalty regime is actually contributing to the unrestrained oil sands development now being experienced in Alberta. Eliminating the current royalty holiday for oil sands projects is one approach to moderating development while maximizing the return to Albertans.

1. Continue with the reduced royalty rates (1% of gross revenue) for oil sands projects in the initial capital cost recovery period as specified in the existing Oil Sands Royalty Regulation 1997.
2. Defer payment of the royalties lost in the capital cost recovery period rather than eliminating them. These deferred royalties are equal to the difference between the 25% of net revenues and the 1% of gross revenues already remitted by oil sands owners. The deferred royalties would be accumulated during the capital cost recovery period rather than collected.
3. Convert the deferred royalty revenue accumulated by the Alberta Government into an equity interest in the oil sands project at the end of the capital recovery period. The percentage equity in the oil sands project would be equal to the difference in royalty revenue between 25% of net which was not paid and the 1% of gross revenue which was remitted divided by the total cost of the oil sands project. That is:

$$\begin{array}{l} \text{Earned Equity} \\ \text{In Oil Sands} = \frac{25\% \text{ of Net Revenues less } 1\% \text{ of Gross Revenues}}{\text{Project} \qquad \qquad \qquad \text{Total Cost of Oil Sands Project}} \end{array}$$

4. The calculations of net and gross revenues would be done in exactly the same manner in which it is calculated under the current Oil Sands Royalty Regulations.

5. The plan allows Albertans to recover their lost royalty revenues by earning additional income from future revenue of the oil sands projects as an equity partner in the project once the capital costs of the project have been recovered.
6. The revenues earned as an equity participant in an oil sands project could be collected through the establishment of a crown corporation or perhaps placed directly into the Heritage Trust Fund.
7. Many oil companies may not want to be eventual partners with the Government of Alberta. It is proposed that oil sands projects owners be free to decide whether they want the Province of Alberta as a partner or not. If the owners chose to decline to be eventual partners with the Province of Alberta, they may chose to pay the full royalty of 25% of net revenues from the commencement of their production.
8. A second opportunity would be available to oil sands project owners on the completion of the capital cost recovery period. If project owners, at this time, do not chose to have the Alberta Government as equity participants in their project they will have the opportunity to purchase the Alberta Government's equity share. The value of the buyout would be based on the value of the project at the time of the purchase of the Alberta Government's share of equity.
9. The Alberta Government would also have the choice of selling off their equity in an oil sands project to interested individuals or corporations at any time, on the agreement of the other oil sands project owners

This proposal would ensure a fair return to Albertans while still assisting the oil sands projects through the period of initial capital cost recovery. In addition the Government of Alberta accepts a portion of the project risk by deferring collection of royalties.

Can the Government of Alberta withdraw the royalty tax break now offered to oil sands projects? Yes they can! Will it cause some upset in the oil sands industry? Yes, it might. Is there any precedent for this? Yes. An example of a "claw-back" of incentives is clearly born out in the recent announcement by the federal government that it is phasing out the accelerated capital cost allowance. Previously oil sands mining and in situ projects were able to claim accelerated capital cost allowance on the assets of the particular mine, up to the income from the mine or project. As corporations recovered their initial investments sooner, accelerated capital cost allowance reduced the risk associated with the mine or project, thus improving the overall economics of the project.

This action by the Government of Canada is a clear indication that they have realized that oil sands projects no longer needs development incentives. Oil companies do not agree with that decision but they will adjust to it.

The Government of Alberta as the owners of the oil sands resources on behalf of the people of Alberta also has the power and the authority to change tax and royalty regimes currently respecting oil sands projects.

It is crucial that Government of Alberta act now.

- The development of the Alberta oil sands is here to stay
- Oil sands projects no longer need incentives to ensure their success
- Development will increase at a horrendous rate currently being experienced until government takes steps to rein in the development process.
- Eliminating the current royalty holiday for oil sands projects is one approach to moderating development while maximizing the return to Albertans.

Thank you for the opportunity to make my presentation today.