

## **Presentation to Royalty Review Panel June 4, 2007 – Fort McMurray**

Total E&P Canada Ltd. is pleased to have the opportunity today to present to the Royalty Review Panel. I'd like to start off with telling you a little bit about who we are.

Although Total is new to the Alberta oil sands, we have extensive experience in exploration and production - including heavy oil - around the world. Our parent company, Total SA, is one of the world's largest oil and gas groups and has operations in more than 130 countries.

Nevertheless, we fully recognize that development of the oil sands is not a typical oil and gas activity. In many cases the challenges are much greater than in other more conventional areas.

Currently, Total is the operator on the Joslyn lease with an 84 per cent participating interest. Joslyn is expected to yield two billion barrels of bitumen over 30 years. We also have a 50 per cent interest in the Surmont project, which has an ultimate production potential of more than 200,000 barrels of bitumen per day.

We hold additional leases in the oil sands and we continue to explore opportunities to grow and expand our Canadian portfolio.

Total is also committed to upgrading its bitumen in Alberta. We want to keep this activity in the province so that Albertans can experience the economic and social benefits of this activity. Recently, we were pleased to announce our intent to construct an upgrader in Strathcona County. The first phase of the upgrader is planned to produce 130,000 bbl/d and could commission as early as 2013/14.

We believe that Total has a lot to offer the province and we are looking to make Alberta home for a long time to come. Over the next ten years, we will make a \$10 to \$15 billion capital investment into the province's economy and we will hire more than 1,000 full time employees.

Our goal is to become a leading producer in Alberta's oil sands.

The Oil and Gas Industry has been a critical driver of this province's economy for a long time. The Industry brings prosperity to the Alberta and Canadian economy through:

- employment
- contracting
- investment opportunities, and
- revenue generation through royalty and income tax.

Alberta's oil sands reserves have the potential to continue this prosperity long into the future. We believe that continued development of this unconventional resource is particularly important as conventional oil and gas production levels decline.

It is true that oil prices have risen significantly in the past couple of years, but we should not forget that they inherently volatile and uncertain. As recently as 1998, oil prices plummeted to around \$12/bbl, leading to significant reductions in investment and activity in the sector.

Industry has learned that it pays to be prudent when considering long term price scenarios for multi billion dollar investments. However, looking at prices is only one piece of the equation and, just as importantly, costs must also be taken into account.

Although oil prices have gone up, so have project costs. These include both upfront development costs and operating costs, once major construction is complete. This is not insignificant when we consider that up to 50% of the cost of an in-situ project, may be incurred after production begins

We will let others, who have direct cost increases, present and illustrate their experiences with actual figures. However, judging from the experience of these other operators, it is clear to us that costs continue to rise. And despite the higher price of oil, the economics of oil sands projects have not improved. With upfront investment in the billions, the risks for industry are greater now than they ever have been.

Beyond rising costs, industry is also faced with many other uncertainties, which create additional investment risks for these huge and technically complex projects:

- The availability of skilled labour
- Greenhouse gas emissions and the need to address climate change
- Water management policies
- Geological risks
- Project delays
- The regulatory review process
- Changed fiscal terms at the federal level, and
- The future of the provincial royalty and fiscal regimes.

And let us not forget another inherent risk. In-situ technology is still very immature. To date, hundreds of millions of dollars have been spent on research and development in the oil sands. But although great strides have been made, there is little experience with large scale in-situ projects.

The reality is that many technological challenges still exist. The industry must continue investing in R&D to ensure in-situ technology unlocks the full potential of the oil sands. R&D can push the boundaries of technology to meet these challenges, but only if there is a healthy industry to invest in that effort.

When the royalty regime was first implemented, the key objectives were to:

- Promote the growth of the oil sands and their contribution to GDP
- Encourage industry efficiency
- Provide fiscal stability and a generic regime for all projects
- Provide a fiscal structure which would return an equitable share of economic rent to governments.

It is fair to say that the rate of development in the oil sands has helped to achieve these objectives. But we must keep in mind that while many projects have been announced, some projects have been cancelled or suspended. Many smaller companies have been forced to sell their assets and it is entirely possible that others will not make it past the announcement stage.

We know that oil sands projects face some of the biggest hurdles of any hydrocarbon resource. It takes billions of dollars and many years to develop a project. In addition, we should also underline that bitumen has a value significantly less than crude oil. Bitumen prices do not always follow the same trend as world crude prices. Finally because bitumen has a relatively low value it takes a long time before payout of the investment is reached.

We also know that oil sands projects continue to operate for several decades after economic payout, until final reclamation is achieved. Projects continue to face many uncertainties, both technical and economic, prior to reclamation.

The current royalty system was designed in collaboration between government and industry to find a balance against these important barriers to development. These challenges make it imperative to have a stable fiscal regime to help balance the risk.

In our view, Alberta's royalty system, in combination with the federal and provincial tax regime, has played a key role in attracting investment opportunities.

This stability must continue.

Despite all of the challenges and uncertainties, investment in the oil sands can continue. Total's decision to build our upgrader in Strathcona County is proof that we believe we can successfully grow our business under the existing regime in Alberta.

But the risks are clear and the current economics are not robust. Even seemingly small changes to the current fiscal regime could have large consequences for industry.

It is Total's position that the current taxation system, including today's royalty regime, remains entirely appropriate for continued development in the oil sands. However, if changes are contemplated, we would hope that government would fully consult with industry, so that all parties fully understand the implications and consequences of any modifications.

In the past, consultation with industry has resulted in a win-win situation for the government, industry, and the owners of the resources - the people of Alberta. This was the case with the original Generic Oil Sands Royalty Regime and we hope the Alberta government will continue with this progressive view well into the future.

Total appreciates the opportunity to participate in this consultation session. We trust the Government of Alberta will continue to provide an environment that fosters investment, prosperity and innovation to ensure the sustainability of Alberta's oil sands for years to come.

Thank you.