

Alberta Royalty Review Panel

EnCana Corporation – Written Submission

Gerry Protti
Executive Vice-President, Corporate Relations
EnCana Corporation



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EnCana Corporation welcomes the opportunity to address and contribute to the public policy discussion during the Government of Alberta's review of oil and natural gas royalties and its tax regime. The matters considered by the independent royalty review panel and the recommendations it makes will have a profound and lasting impact on the future of our province.

Deep Alberta roots

With roots and operations in Alberta dating back to the 1880s, EnCana, and its predecessor companies, have built a sustainable and vibrant corporation that has been a vital part of Alberta's energy sector. Since its creation in 2002 from the merger of Alberta Energy Co. Ltd. and PanCanadian Energy Corporation, EnCana has completed a significant and strategic transformation from a conventional oil and gas producer operating in Canada and a series of other countries to one focused primarily on unconventional natural gas and integrated in-situ oilsands production in North America. EnCana refers to unconventional plays as resource plays. More than 55 percent of our natural gas production and in excess of 90 percent of our oil production, plus about half of our tenured land and proved oil and gas reserves, are in Alberta. With daily production of about 3.4 billion cubic feet of gas and about 130,000 barrels of oil, EnCana has nine natural gas and three oil key resource plays under development in North America. Leading gas and oil resource plays in Alberta include Shallow Gas and CBM (coalbed methane) in southern Alberta, Deep Basin gas development along the West Central Alberta Foothills and the Foster Creek and Christina Lake steam-assisted gravity drainage (SAGD) oilsands projects in northeast Alberta. About 85 percent of EnCana's total production is from resource plays.

EnCana's Alberta investment

In 2006, EnCana invested about \$3.4 billion of capital and \$1.3 billion on operations in Alberta. According to Alberta Finance's Alberta Economic Multipliers 2002, 2006 version, these expenditures contributed up to \$4.8 billion to Alberta's gross domestic product, created up to \$2.2 billion in labour income and provided up to 37,000 person years of employment.

CAPP support

As an active member of the Canadian Association of Petroleum Producers (CAPP), EnCana participated extensively in the preparation of the written submissions made to the Royalty Review Panel by CAPP and supports those submissions.¹ In this submission, EnCana aims to enhance CAPP's work by providing our company's unique perspective as a leading unconventional natural gas producer and integrated oilsands company.

¹ Oil Sands, Benefits to Alberta and Canada, today and tomorrow, through a fair, stable and competitive fiscal regime, CAPP 2007, (hereinafter "CAPP Oil Sands"). Oil and Gas Benefits to Alberta and Canada, today and tomorrow, through a fair, stable and competitive fiscal regime. CAPP and Small Explorers and Producers Association of Canada, 2007 (hereinafter "CAPP Oil and Gas")

EnCana's View

EnCana believes that Alberta's natural resource future is unconventional and that the future is just beginning. Alberta's unconventional gas and oil resources present an outstanding opportunity for Alberta to remain as a choice location to live and do business; however that opportunity is not guaranteed. Realizing on this opportunity requires a recognition that unconventional resource developments occur over many years; sometimes decades. During the course of those long term developments, producers face many risks including:

- Reservoir performance;
- Successful development of new technologies;
- Rising development / operating costs;
- Fluctuating commodity prices; and
- The need to make long-term transportation commitments to access downstream markets.

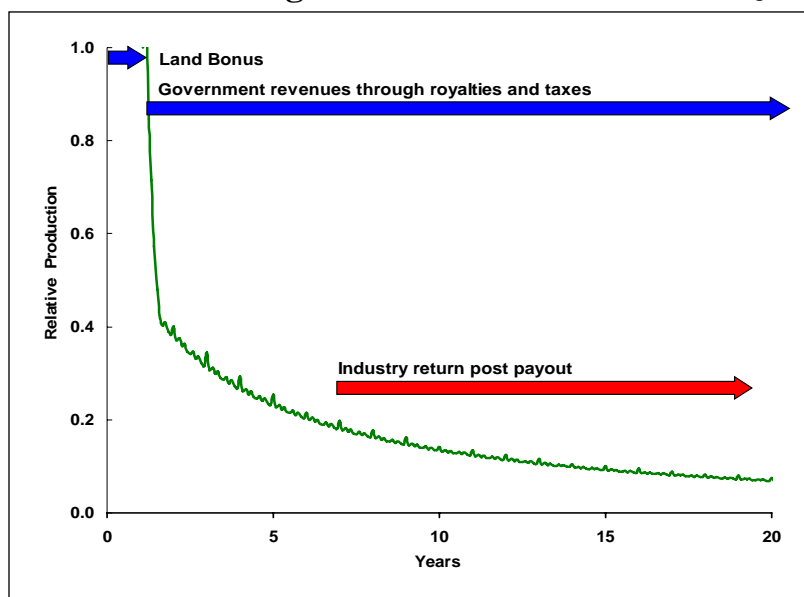
Successful unconventional resource developments require extensive planning, excellent project management and continuous technology improvements.

Competitive and stable fiscal regime essential

For Alberta to realize the full potential of its unconventional energy resources, it is essential that the Government of Alberta continue to provide both competitive and stable fiscal conditions and sound technical and environmental regulation. The existing royalty structure, containing low well productivity allowances and production and price sensitivity has provided strong and increasing cash flow to the Crown. Further, it has facilitated the early stages of a transition to an unconventional resource based oil and gas industry.

The existing royalty system has ensured that the Crown gets paid first and throughout the life of the project, regardless of project profitability. The Crown's assurance of early and continual payment through the life of an unconventional project is illustrated in Figure 1, which demonstrates that relative timing of the receipt of Crown revenue and industry returns after payout.

Typical Unconventional Tight Gas Production Profile (Figure 1)



Alberta's Unconventional Resource Base Presents an Outstanding Opportunity

Alberta is blessed with substantial unconventional resource potential, the most recognizable example of unconventional resources – oilsands – hold an estimated 1.6 trillion barrels of crude bitumen, with approximately 174 billion barrels of this volume being recoverable under current economic conditions.² This is complemented by abundant unconventional natural gas resources, most notably contained in growing supplies of coalbed methane, which are estimated at 500 trillion cubic feet (Tcf) in place, and deep basin tight gas, with an estimated 430 Tcf in place, plus the emerging potential of shale gas.³

The development of oilsands has the potential to lead to significant economic impacts in Alberta, Canada and abroad. Development and production activities associated with the oilsands have been estimated to be capable of increasing gross domestic product by approximately \$885 billion, with \$634 billion, or 72 percent, of that increase being felt in Alberta.⁴ Clearly, the economic advantages that a vibrant oilsands industry can provide will, if properly managed, lead to a very bright future for Alberta. This economic potential is also available from unconventional natural gas resources; however, like the oilsands, it will only be realized if a proper regime for managing that potential is established.

Alberta – A Respected Resource Steward

Alberta has done a highly admirable and globally-respected job of managing its oil and gas resources and turning resource opportunity into tangible economic benefits. In oilsands, the 1974 establishment and the subsequent investment of more than \$80 million in the Alberta Oilsands Technology and Research Authority (AOSTRA) plus the province's work on and implementation of recommendations of the National Taskforce on Oilsands Strategies are tangible examples of strong government policy that built a foundation for the economic success Alberta is currently experiencing. In natural gas, volume and price sensitive royalties have encouraged the development of low productivity wells – the backbone of Canada's unconventional gas industry, one of the world's largest. Natural gas production now contributes 70 percent of provincial petroleum resource revenue, with an ever increasing proportion from unconventional reservoirs. Additionally, Alberta regulatory policy of open information through the Alberta Energy and Utilities Board and the province's open capital markets enable vibrant technology transfers to drive the development of the industry. The technical and operational capacity of the Alberta producer and service sectors developing unconventional resources is world class and positions Alberta well to capitalize on its unconventional future.

² CAPP Oil Sands.

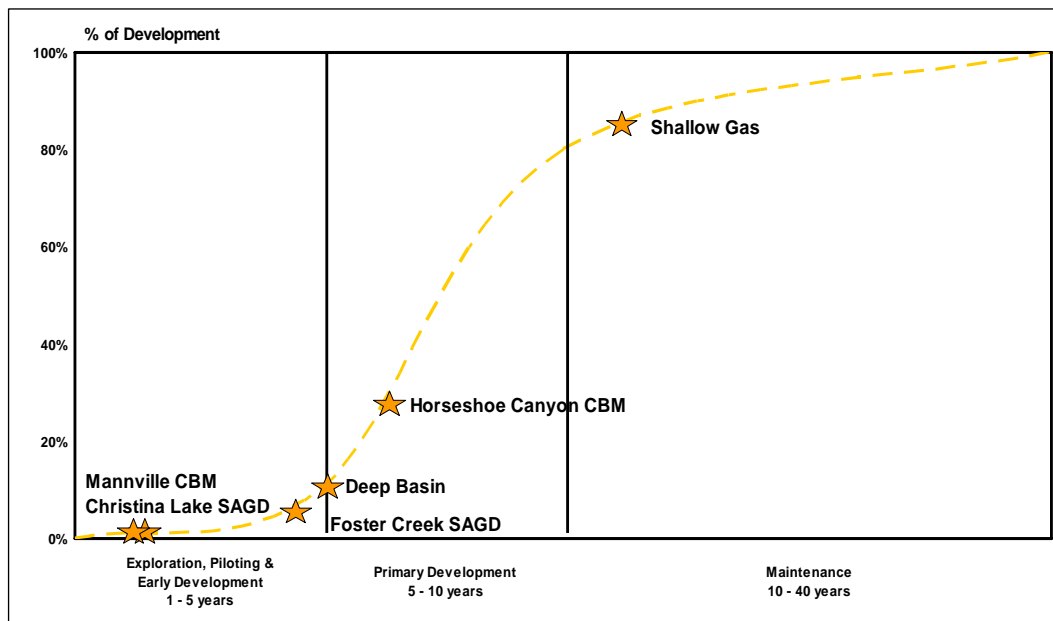
³ CAPP Oil and Gas.

⁴ Canadian Energy Research Institute. Govinda R. Timilsina, Nicole LeBlanc and Thorn Walden. Economic Impacts of Alberta's Oil Sands, August 2005.

Characteristics of Unconventional Resource Development

Unconventional resource play development is a long-term business, often lasting 30-40 years, yet development of unconventional resources in Alberta is at an early stage. As illustrated in Figure 2 below, only a small fraction of the planned wells have been drilled to date at EnCana's Foster Creek project, the first commercial SAGD development. The maturity of the resource development is similar for EnCana's Horseshoe Canyon and Mannville CBM Resource plays.

EnCana Alberta Key Resource Play Maturity (Figure 2)

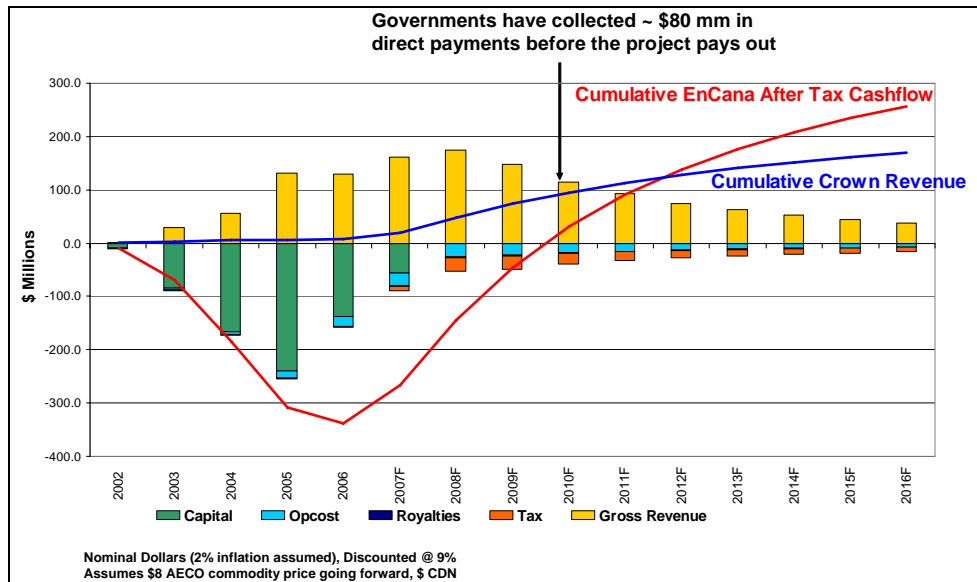


Other than Shallow Gas, all of EnCana's resource plays are in the very early stages of development and will require thousands of wells to be drilled. Even our shallow gas fields at 30 years of age still have over 6,000 wells left to be drilled and EnCana has every expectation that technology will increase this number with time. With stable fiscal, environmental and regulatory structures in place EnCana can predict activity levels required for these unconventional plays for up to 10 years or more.

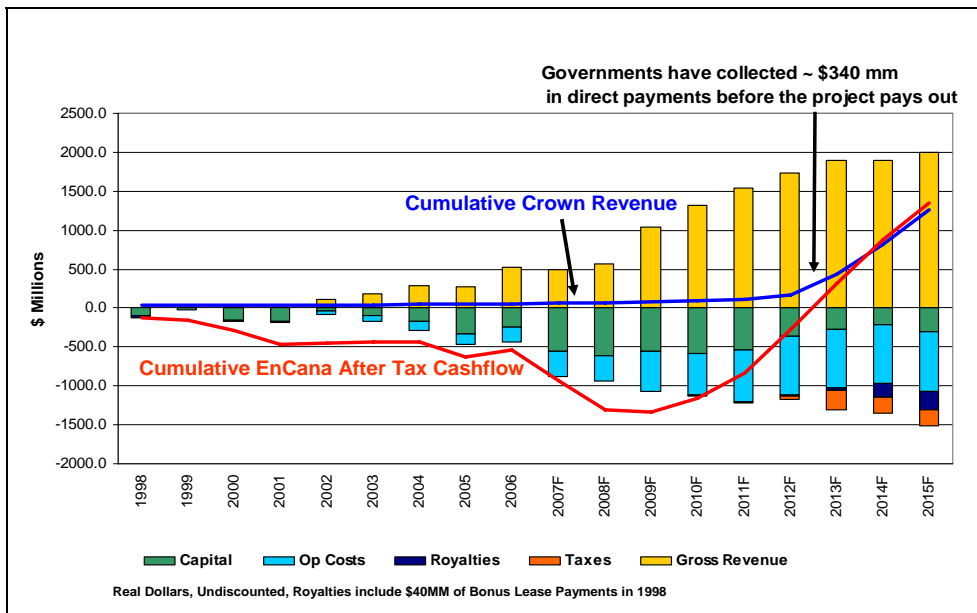
These steady activity levels are ideally suited for the commitment to long-term technology development and long-term service contracts with suppliers that also allow them to commit to new equipment development and fit-for-purpose equipment. Resource plays foster the development of a sustainable service sector that adapts and advances technology development. Over time, efficiencies grow, costs fall and productivity increases to a point of making the projects economic and sustainable, for both the Crown and all producers.

Figures 3 and 4 below are EnCana examples of unconventional resource development from the Horseshoe Canyon CBM at Strathmore and SAGD in northeast Alberta. These are very representative of typical resource play development characteristics and how both the Crown and producers share in the economic rent. These examples have been chosen as they have significant history with real development costs and commercialization timelines, along with a very high confidence level in the future investment needs and cash flow projections. These examples are full-cycle, after-tax, project-based cases representing before royalty annualized peak production rates of more than 115 million cubic feet of gas per day of CBM development and about 170,000 barrels of oil per day of SAGD development.

Strathmore Area Horseshoe Canyon CBM Full Cycle Cash Flow Analysis (Figure 3)



SAGD Project Projected Full Cycle Cash Flow Analysis (Figure 4)



Realizing the Unconventional Opportunity

Unconventional resource developments are long life, technology and capital intensive and involve ongoing operating costs. Accordingly the unconventional resource developments require that the producer manage certain risks, including long-term reservoir performance and associated transportation commitments, inflation on capital and operating costs as well as fluctuating commodity prices. The fiscal regime, both royalties and taxes, applicable to these types of developments must recognize these realities.

Current fiscal regime

EnCana believes that the existing oilsands royalty regime strikes an appropriate balance between risk and reward for oilsands producers. When combined with the tax regime applicable to oilsands projects, the current regime results in approximately a 50-50 sharing of revenue over the life of an oilsands project. Alberta's current natural gas fiscal regime, which is sensitive to both price and well productivity, also strikes a reasonable risk / reward balance between resource owner and resource developer.

Going forward

In conclusion, Alberta's unconventional resources represent an outstanding opportunity for the province. While some of the benefits of unconventional resource development have already been realized, the industry remains in its infancy. Because the majority of these unconventional opportunities remain to be realized, it is essential that any review of the fiscal regime factor in all appropriate risks which could affect unconventional development.

Alberta's existing royalty structure, containing low well productivity allowances, sensitivity to prices and production levels, has provided strong and increasing cash flow to the Crown. Further, it has facilitated the beginning of transition to an unconventional resource based oil and gas industry. EnCana wants to see this transition continue in an economically vibrant and healthy manner.

Unconventional resource development is a long-term endeavor, occurring over many years, often multiple decades, and success depends upon stable and consistent fiscal conditions. There will always be uncertainty about commodity prices, the speed of technological advances, labour and operating costs. EnCana employs a variety of tools and mechanisms to manage such risks. Adding the uncertainty of changing fiscal conditions raises additional concern for investment in unconventional projects.

If the Province of Alberta is considering royalty adjustments, EnCana believes it should consult producers to understand the impact on project economics and investment decisions for the long-term.

Through such a vital, complex and important process, stakeholders, regulators, governments, and producers will need to act in partnership to ensure that Alberta's unconventional resources are developed in a manner that maximizes public interest.

EnCana Corporation
June 22, 2007