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ALBERTA ROYALTY REVIEW PANEL

Before Board Panel:

- Bill Hunter - Board Chairman
- Judith Dwarkin - Board Member
- Andre Plourde - Board Member
- Evan Chrapko (np) - Board Member
- Ken McKenzie - Board Member
- Sam Spanglet (np) - Board Member

HELD AT:

Delta South
Edmonton, Alberta
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Volume IV

APPEARANCES

1
2 Ken Unruh)Private Citizen
3
4 Don Peel)Private Citizen
5
6 Ross Van-Tonningen)Private Citizen
7
8 Don Gunderson)Private Citizen
9
10 Mark Nelson)Chevron Canada
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1 --- Upon commencing at 8:57 a.m.

2

3 THE CHAIRPERSON: Good morning, everyone.
4 Welcome and on behalf of the Royalty Review Panel thank
5 you for your interest in our work in Alberta's royalty
6 and tax regimes. Your input is a very important part of
7 what we have been asked to do and we appreciate your time
8 and your effort.

9 As a way of introduction of the panel, on
10 my far right is Andre Plourde; next is Judith Dwarkin; my
11 name is Bill Hunter; and to my left is Ken McKenzie. We
12 have a very stern, stiff young lady as a timekeeper on
13 the far left. Her name is Elizabeth and she's very
14 diligent but very supportive.

15 A couple of housekeeping opportunities.
16 Each individual presenter will be allocated five (5)
17 minutes to present followed by an opportunity for the
18 panel to ask questions of clarification. Each
19 organization has been allotted ten (10) minutes and again
20 the panel will have the opportunity to ask questions of
21 clarification.

22 If you have a submission with you today
23 we'd gladly accept it. We have a secretariat table at
24 the back or at the registration desk when you came in.

25 If you have not a submission with you and

1 you'd like to make a submission, please refer to our
2 website. You can fax it in, mail it in, do it online,
3 whatever method is most comfortable for you, but please
4 take the opportunity to share with us your inputs and
5 contributions on fair share for Albertans.

6 From an emergency point of view, just so
7 that you're cognizant of where the nearest exit is, we
8 have one (1) door at the back that you came through, we
9 have another set of doors up here on the right, and for
10 those in this corner there is access through this back
11 corner if we have an emergency fire or whatnot.

12 To announce the opportunity of our
13 exchange today and so that we can hear all the
14 presentations clearly and uninterrupted, we ask that you
15 shut off your Blackberrys and your cell phones so that
16 we're not disrupted. If you must keep it on for
17 emergency purposes, please put it to vibrate or some less
18 intrusive method of people getting your attention.

19 For the media present here today, I'd be
20 happy to speak with you at our first scheduled break. I
21 would ask that you please respect the space of the panel
22 and the presenters during proceedings.

23 And again, on behalf of the panel and all
24 Albertans thank you very much for coming this morning and
25 making your contributions.

1 So if Mr. Unruh is here we'd be glad to
2 hear your contribution. Unruh or Unruh -- sorry?

3 MR. KEN UNRUH: Unruh. You just want me
4 to have a seat here?

5 THE CHAIRPERSON: You bet. Good morning,
6 sir.

7

8 PRESENTATION BY MR. KEN UNRUH

9 MR. KEN UNRUH: Good morning to you all
10 there. My name is Ken Unruh, as you know. I've come
11 here to Alberta in 1984 to from BC. I am professional
12 engineer. I graduated from The University of Alberta.
13 I'm now a partner in a medium-sized engineering firm here
14 in Edmonton, to give you a little bit of background.

15 I think a tremendous opportunity exists
16 here for the Royalty Review Panel in making some strong
17 recommendations to the Alberta Government to improve and
18 make improvements whereby the royalty program can be used
19 as a way of improving the quality of life here for
20 Albertans.

21 I think that we can see this has come
22 about due to the current boom in Alberta and we know that
23 things are getting quite chaotic here. And we hear
24 across Albertan -- Alberta, mayors and people who are
25 operating towns and municipalities, they talk of

1 struggles and they talk of hardships to deal with the
2 boom. To me that would indicate that the boom is not
3 improving the quality of life here, but is rather causing
4 some cumbersome things to take place.

5 And I think that's due to all economies
6 will have limits and controls. In this case, the economy
7 right now in Alberta is being limited and controlled by
8 chaos, labour shortages, so on and so forth. Sure there
9 are some people benefiting; high real estates prices,
10 developers here and there may benefit. But I think the
11 overall quality of life for Albertans has not been
12 improved and in some cases perhaps has even been
13 diminished.

14 So I think the opportunity now exists
15 for the royalty program to turn that around. And it's
16 kind of to bad that maybe there weren't some changes in
17 place maybe four (4), five (5), six (6) years ago when
18 the oil and gas development boom was really ramping up.

19 And I think the one way of doing that
20 would be to turn the royalty program into a mechanism
21 which in some sense is like the interest rate in which
22 David Dodge, the Governor of the Bank of Canada,
23 continues adjusted the interest rate to control the
24 economy in Canada.

25 If things are getting a little out of

1 control, we crank it up. If things needs some stimulus,
2 we bring it down. I think that's exactly what the
3 royalty program should do, is that in times of boom like
4 this, the royalty program should've been cranked up a
5 little bit, reducing perhaps some projects and causing
6 the growth to be sustainable, manageable and controlled;
7 controlled by the Alberta people, the Government of
8 Alberta, rather than by chaos, labour shortages, so on
9 and so forth.

10 I think that I -- I -- well, I can
11 recall -- or in the industry that I'm in there's many,
12 many accounts of projects which are not oil and gas
13 related which are being just steamrolled and decimated by
14 the oil and gas industry. So I think if -- in Alberta if
15 we make a decision and say we want to have a diverse
16 economy, we need to make sure that the playing field is
17 level for all players and not continuously gobbled up by
18 the oil and gas.

19 Recently we had the mad cow syndrome
20 here in Alberta. A lot of develop -- I guess, growers
21 got together and said, let's build a slaughtering house.
22 There were some slaughtering houses built. I was
23 personally involved in a slaughtering project that was to
24 go. It started out at \$20 million and by the time they
25 were done the preliminaries it was at 40 million and it

1 killed the project. So I want to, you know, make sure
2 that the boom here in Alberta's controlled, sustainable.

3 Growth is good, but let's not have it
4 out of control and let's not have it being controlled or
5 limited by chaos. Let's control it with the royalty
6 program on a continuously adjustable basis and that will
7 provide a quality of life -- an ever improving quality of
8 life for us Albertans here in Alberta.

9 That's basically by presentation. I could
10 go on for a little longer, but I think I'm getting close
11 to being out of time.

12 THE CHAIRPERSON: Thank you, sir.

13 MR. KEN UNRUH: So if you have any
14 questions?

15 THE CHAIRPERSON: Yes, please. If you
16 could just --

17 MR. KEN UNRUH: Yeah.

18 THE CHAIRPERSON: Andre...?

19

20 QUESTIONS BY BOARD:

21 MR. ANDRE PLOURDE: Thank -- thank you
22 for your presentation. Maybe I can pursue with you a bit
23 your idea of using the royalty system as a way of
24 controlling, if you think of it that way, the pace of
25 activity.

1 MR. KEN UNRUH: Right.

2 MR. ANDRE PLOURDE: Do you see this as
3 something that should be automatically within the royalty
4 system so that, for example, royalty rates adjust a lot
5 to changes in prices or do you think they should be the
6 result of discrete and -- discrete policy decisions?

7 In good times somebody goes, writes new
8 regulations and -- and -- so there's a lot of flexibility
9 left in the hands of the Minister, for example, or
10 somebody -- or -- so automatic or discrete ad --

11 MR. KEN UNRUH: Yeah, there's --
12 obviously this is just the top level concept; there'd be
13 some mechanisms that would have to be put into place and
14 there's different ways of doing that. But I think
15 ultimately what you would need to -- you know, the fair
16 share, what's the fair share? I say the fair share is
17 that which will control the pace of development in
18 Alberta, that's the fair share.

19 It's not a fixed amount and I think
20 that enough uncertainty needs to be put into the market
21 place such that a project here and there in the oil and
22 gas development is put on hold or left to some other time
23 such that not everything has -- and we don't need to
24 remove all the oil in Alberta day. It can come out in a
25 sustainable manner and it can come out in a growing

1 manner; that's perfectly fine. But I think that nobody
2 will argue throughout Alberta that the oil is being
3 removed at too great of a pace right now or the attempt
4 to remove it as too great of a pace right now and it's
5 causing trouble for the Alberta people.

6 So the mechanism that's actually put into
7 place will require some thought and I'm sure there's
8 probably a number of different ways of doing it. It
9 would obviously be part rule-based so that the oil and
10 gas developers have something to go by and it also to
11 some extent would be a judgment call by that of the
12 person in charge, the Minister perhaps.

13 Just the same as David Dodge sits back and
14 says, You know, let's just hold it this time. He's
15 working to some rules. He says this is where we want to
16 keep the inflation rate. So there's some guidelines.
17 Industry can see that and can make some business
18 decisions based on that but ultimately there is also
19 some, I guess, human judgment at another point so I would
20 say a combination of both.

21 THE CHAIRPERSON: Okay. Thank you.
22 Judith...?

23 MS. JUDITH DWARKIN: Thank you. Thank
24 you for your presentation. I guess following on Andre's
25 comment do you have a sense of what is the right pace for

1 development in Alberta?

2 If today is too fast and maybe ten (10)
3 years ago was too slow, do you have a sense of what that
4 correct pace is and what -- what metric would you use to
5 measure that pace?

6 MR. KEN UNRUH: I would suppose that
7 these would be also mechanisms that would have to be
8 thought out and put forward once the idea of a
9 continuously and variable rate would be agreed to. I
10 would say 50 percent home increases -- price increases in
11 real estate is probably too great. I don't think we
12 could have 50 percent every year so, therefore, we're
13 saying that's not sustainable. So it would have to be
14 something less than that.

15 The population influx is probably causing
16 the municipalities hardships. So if we're at a point
17 where mayors are saying we're facing hardships due to the
18 boom, I would say that's too great so it should be
19 something less than that. That exact number, I couldn't
20 exactly say, but probably somewhere between ten (10)
21 years ago and what it is today.

22 THE CHAIRPERSON: Ken...?

23 MR. KEN MCKENZIE: Thank you for your --
24 for your thoughts. I think Andre and Judith basically
25 covered what I would ask. So let me ask perhaps a

1 slightly more general question.

2 Just to, sort of, get where your
3 priorities lie here --

4 MR. KEN UNRUH: Right.

5 MR. KEN MCKENZIE: -- is it -- do you see
6 the royalty system as being used more so as a
7 macroeconomic stabilization tool, to use a little bit of
8 economic jargon if you will, as -- in order to manage the
9 economy, in particular the pace of the economy, more so
10 that than simply there as a sort of passive mechanism to
11 collect economic rents?

12 MR. KEN UNRUH: Right.

13 MR. KEN MCKENZIE: Okay.

14 MR. KEN UNRUH: I -- it's probably a
15 combination. Ultimately what I see as the bottom line is
16 quality of life for Albertans. That's what we're all
17 here for and that's why we say industry needs to thrive
18 because that provides jobs, people have good work, and
19 that's -- and then thereby have quality of life.

20 Quality of life is bottom line, okay, and
21 I see the boom and the economic environment or the
22 structure that the oil and gas people are working in
23 today as eroding the quality of life in Alberta. So,
24 therefore, I would say the royalty program, yes, can be
25 used as a mechanism more for than just saying I want to

1 collect so much money, you know, 10 percent or whatever -
2 - 30 percent, 50 percent; that's ours and that's fixed.
3 I would rather see it as a control mechanism to be in
4 place. So fair share I think is somewhat adjustable.

5 You know, we have surpluses of 5 billion,
6 4 billion, 7 billion and if we can't utilize it the
7 economy is to its maximum capacity and we say, Let's go
8 build a road. Well, five (5) years ago the road was \$100
9 million; today it's \$500 million. Are we making
10 improvements? I question that.

11 MR. KEN MCKENZIE: Thank you.

12 THE CHAIRPERSON: Ken, you generalize in
13 your discussion about the rate of development. So in our
14 terms of reference we cover all aspects of energy
15 development. We look at oil sands, in situ, conventional
16 oil and gas, unconventional like coal bed methane.

17 Do you think they're all contributing to
18 this rate of development issue that you've brought
19 forward or do you think it's one (1) specific part of the
20 energy sector that contributes more than the others
21 and...?

22 MR. KEN UNRUH: Well, the -- I would say,
23 you know, you have the drilling -- conventional drilling
24 programs and then you have the oil sands -- primarily
25 those two (2) -- and whether you're drilling for oil or

1 word?

2 THE CHAIRPERSON: We are lenient to
3 people who stutter as well.

4 MR. KEN PEEL: Okay. Excellent. I may
5 do a lot of that.

6 MR. KEN MCKENZIE: And you have nice
7 shirt.

8 MR. KEN PEEL: Oh, thank you, thank you.

9

10 PRESENTATION BY MR. KEN PEEL

11 MR. KEN PEEL: I'd really like to take
12 this opportunity to encourage the review panel to
13 consider how proposed changes to the oil and gas
14 royalties will affect the cost of public infrastructure.
15 Our previous speaker just mentioned about the actual rise
16 in cost of highway construction. And increased
17 consumption and cost of fuels to construct and maintain
18 our roadways, drainage and water syst -- systems affect
19 every Albertan.

20 I'm concerned that the efforts to
21 ensure that Albertans receive fair return for their
22 energy resources, we might be creating a need to increase
23 the tax burden on Albertans as aggregate producers adjust
24 their prices to recover the royalties from their
25 consumers. And to illustrate this potential problem I

1 have submitted this -- this submission indicating a
2 number of areas to actually prove this point and this
3 argument; that there's a trend happening in Alberta that
4 is greatly increasing the economic, social and
5 environmental costs related to the production of a con --
6 construction material mineral aggregate.

7 And the relationship between this is, the
8 haul distances that are being increased and that takes
9 energy. So as opposed to going over the information,
10 I've provided in the submission to do that, I'd like to
11 give you a sort of a background of myself on how this
12 research was actually developed.

13 I'm -- I -- I worked with the Alberta
14 Provincial Government for twenty-six (26) years and I was
15 dealing with the aggregate resource sector for seventeen
16 (17) of those years, while I was in government. The
17 interesting thing about aggregate is that there is no
18 fair share coming back to Albertans with regards to the -
19 - the royalty because only on public lands it's
20 collected.

21 The law property act actually gave the
22 ownership rights to sand and gravel to the owner of the
23 land, and that's a mechanism that has created a really
24 complex situation for Alberta. Basically there's no real
25 management process for the aggregate resources, is what's

1 happened, related to this.

2 But I think this Royal Review has to take
3 some consideration of how any sort of adjustments in
4 royalties is going to affect the cost towards aggregate
5 production. And that's based on this research that I've
6 done.

7 I actually did my masters at The
8 University of Alberta in -- in science and it was to do
9 with sustainable development. Now, sustainable
10 development really talks about the interaction of
11 everything; all systems together. Therefore, what I'm
12 saying is that if you're going to change something in
13 royalty rate that's related to another sector, it's
14 probably going to have ramifications and implications.

15 But there is -- there is a really big
16 issue here with regards to that and I think Albertans
17 have to sort of become aware of these -- these escalated
18 costs because of our planning process here in Alberta
19 which does not consider the aggregate resources in the
20 planning process.

21 And basically I'm hoping that perhaps by
22 bringing to the attention of this review committee that
23 this is something that has to be put into higher priority
24 for the Alberta Government to benefit all Albertans. And
25 I -- I really encourage -- I realize that I sent --

1 submitted this last night at eleven o'clock so if you
2 don't have a copy of it I'd like you -- hopefully you can
3 go over this because there is some very interesting
4 information. I actually did my thesis and came out with
5 a three hundred (300) page document on this particular
6 thing.

7 But there is a tie-in to the energy
8 development. So that's what I'd like this review panel
9 to consider.

10 So I know it's a little beyond the
11 strategy to do a development for aggregate resource
12 management -- is beyond this Royalty Review -- but it is
13 tied into the fact about that.

14 So I hope I'm within my five (5) minutes.
15 I -- I think that I could go on for hours with regards
16 to this subject so I'll turn it over to you.

17 THE CHAIRPERSON: Thank you, Mr. Peel.

18 MR. DON PEEL: Thank you.

19 THE CHAIRPERSON: Judith...?
20

21 QUESTIONS BY BOARD:

22 MS. JUDITH DWARKIN: Thank you. Thank
23 you for your presentation and I certainly will read the
24 document that you filed at eleven o'clock last night. I
25 hope it's not three hundred (300) pages, but --

1 MR. DON PEEL: Oh, no, it's only two (2)
2 pages.

3 MS. JUDITH DWARKIN: Oh, okay. I would
4 just like to clarify the -- the gist of what you're
5 saying to us this morning for our own understanding.

6 It seems there's -- there's really two (2)
7 issues you're interested in but they're related. One (1)
8 is the impact of development in the oil and gas sector on
9 other sectors both economic, social, and environmental,
10 and so it's all a sort of integrated system.

11 And the other is more specifically the --
12 you're concerned that any -- a change in royalty rates,
13 say to the upside, would translate into increased retail
14 prices or end-user prices for the energy products made
15 from the oils, more particularly than the gas, in
16 Alberta?

17 MR. DON PEEL: That's right.

18 MS. JUDITH DWARKIN: Okay.

19 MR. DON PEEL: And actually with regards
20 to consumption of aggregate it's -- there's 60 million
21 tons annually being consumed in Alberta. Thirty million
22 tons goes to highway projects; it's actually over half.
23 And that's being -- what's happening is it's actually
24 being bought back by Albertans who gave it away to begin
25 with because it went to private landowners.

1 So we, as taxpayers, are paying at the
2 escalated rates and the escalated rates are created
3 through the planning processes that don't consider the
4 aggregate resources when a subdivision goes in or other
5 land use conservation decisions are made, that they don't
6 even know the resource is there.

7 So the Alberta Geological Survey has done
8 an inventory on some of the Province but it's -- it's a
9 discontinued program and it's a very necessary program
10 that has to be reinstated.

11 MS. JUDITH DWARKIN: Thank you.

12 THE CHAIRPERSON: Ken...?

13 MR. KEN MCKENZIE: So just -- again I
14 look forward to reading your -- your written
15 presentation, but just to be clear you're not advocating
16 that we impose some sort of a severance tax on industrial
17 aggregate materials, are you?

18 MR. DON PEEL: No.

19 MR. KEN MCKENZIE: Okay. I just needed
20 to clarify that.

21 MR. DON PEEL: Yeah. And what I'm --
22 what I'm saying here is that likely there's going to be a
23 kickback. You're going to take royalties if -- if you
24 increase the royalties on oil and gas, that's still going
25 to spill over to the oil sect -- or the aggregate sector

1 who has to transport that -- that material --

2 MR. KEN MCKENZIE: Right.

3 MR. DON PEEL: -- to Public Works.

4 MR. KEN MCKENZIE: Hmm hmm.

5 MR. DON PEEL: So therefore, the taxpayer
6 is actually paying for that so the royalty is in a spin
7 here.

8 MR. KEN MCKENZIE: Hmm hmm.

9 MR. DON PEEL: And it's a very complex
10 situation that I don't even think economists have a
11 handle on this, because another aspect is Alberta
12 Transportation is in the mix and that's thrown out the
13 business model in -- in the aggregate sector.

14 MR. KEN MCKENZIE: Hmm hmm.

15 MR. DON PEEL: So it's -- it's -- I've
16 been looking at this situation for seventeen (17) years
17 and I -- I -- it's to me it's beyond my --

18 MR. KEN MCKENZIE: Hmm hmm.

19 MR. DON PEEL: -- scope of -- of
20 economics understanding of how this whole thing is
21 unravelling, but it -- it's not a sustainable business
22 model, is what I'm -- have concluded.

23 MR. KEN MCKENZIE: Okay. Thank you.

24 THE CHAIRPERSON: Andre...?

25 MR. ANDRE PLOURDE: Two (2) things, if I

1 may. First, if I listen to -- to your presentations in
2 terms of the linkages -- I'm -- focus on that first --
3 the linkages between the activity of oil and gas industry
4 and the use of aggregate resources.

5 From our perspective, as a Royalty Review
6 panel, would that mean from your perspective that we
7 should focus on the oil sands for example, a specific
8 area, a specific dimension of activity, or is -- do you
9 see this as a general problem that cuts across all kinds
10 of conventional, non-conventional, whatever?

11 MR. DON PEEL: Exactly. In any
12 development, resource development, you need
13 infrastructure and that's where a lot of aggregate is
14 going to build roads to -- to actually help resource
15 development; whether it be oil sands, whether it be oil
16 and gas, wherever it is in Alberta it requires roads and
17 it requires access. Therefore, this is -- this is the
18 foundation of our province, essentially is our
19 infrastructure.

20 But there's no consideration about the
21 actual resource that's going into it in our planning
22 process and that has to be adjusted because Albertans are
23 not getting a fair share from the royalties from the
24 aggregate resources.

25 MR. ANDRE PLOURDE: Okay. Second

1 question, if I may. On your first point, in terms of the
2 pass through, if you think of it that way, of the costs
3 of any kind of increases that we may -- might or might
4 not recommend.

5 Now, am I right in understanding that the
6 point that you're making is that if we change royalty
7 rates, let's assume increase them, then the price of
8 crude oil in Alberta or the price of natural gas in
9 Alberta would rise as a consequence of that? Is that the
10 point you're making? Or if we were to recommend that --

11 MR. DON PEEL: No. I -- your -- as
12 pointed out by Andre (sic), the previous speaker, highway
13 costs have escalated dramatically and basically it -- it
14 stems back to energy inflation, energy costs inflation,
15 and it's the taxpayers that are actually paying for that
16 increase.

17 MR. ANDRE PLOURDE: But that's a process
18 on its own, right? The --

19 MR. DON PEEL: But if you raise -- if you
20 raise the royalties --

21 MR. ANDRE PLOURDE: Right.

22 MR. DON PEEL: -- on oil and gas --

23 MR. ANDRE PLOURDE: Right.

24 MR. DON PEEL: -- there's a spin back.

25 It's going to increase your highway costs even more.

1 MR. ANDRE PLOURDE: Because the price of
2 crude would rise as a consequence -- is that -- for
3 example, is that the idea?

4 MR. DON PEEL: Well, because it's -- it's
5 the aggregate industry. It's your pavers that are paying
6 the gas -- they have to get that -- transport that
7 material to the -- the site, to the highways, they're
8 paying that royalty in extra -- the extra royalty. If
9 you raise the royalty then they pay more for the -- the
10 gas --

11 MR. ANDRE PLOURDE: Okay.

12 MR. DON PEEL: -- that they get to the
13 highways, but then the Alberta taxpayer pays for that in
14 -- through taxes to construct the road.

15 MR. ANDRE PLOURDE: Okay.

16 MR. DON PEEL: So it's -- it's not an
17 easy economic situation. It -- it's very complex and I
18 don't think that it's -- it's an easy fix. I -- I think
19 you really have to get somebody maybe to do a -- a very
20 intense study of how the aggregate sector is going to be
21 affected by any sort of changes in the Royalty Review.

22 MR. ANDRE PLOURDE: Okay. Right. Thank
23 you.

24 MR. DON PEEL: Thank you.

25 THE CHAIRPERSON: One (1) more question,

1 if you will. As a retired logger, I am going to ask
2 Andre's question a little bit differently.

3 In a gravel pit in Stettler for the same
4 type of material, excluding transportation costs, am I
5 going to pay more if I went up to Grande Prairie where
6 they are doing resource road development or into Fort
7 McMurray or maybe in the foothills by Pincher Creek as
8 opposed to Stettler?

9 Does it have a provincial wide impact on
10 the cost of the aggregate itself as an effect of the rate
11 of development?

12 MR. DON PEEL: And are you referring to
13 the royalty rate?

14 THE CHAIRPERSON: No, just the core costs
15 of the gravel in the pit.

16 MR. DON PEEL: It -- it varies on market
17 demand and --

18 THE CHAIRPERSON: So what I am getting at
19 is, if we have an abundance of development in the Grande
20 Prairie region, Peace River area over towards Fort
21 McMurray, that demand and that market price for the
22 gravel, would it have an impact on the price of the
23 gravel you might find in Stettler or...?

24 MR. DON PEEL: Likely not.

25 THE CHAIRPERSON: Okay.

1 MR. DON PEEL: It -- it's a regional --
2 it's a regional fix.

3 THE CHAIRPERSON: Okay.

4 MR. DON PEEL: But the -- the -- the
5 royalty rates that Alberta on public land collects is all
6 -- the same rate across the board.

7 THE CHAIRPERSON: On aggregate?

8 MR. DON PEEL: It doesn't matter where it
9 is and there's an injustice with regards to fair return
10 there too, but that's, again, the complexity of this
11 situation.

12 THE CHAIRPERSON: Okay. Thank you very
13 much, Mr. Peel. I appreciate that.

14 MR. DON PEEL: Thank you.

15 THE CHAIRPERSON: Once again, ladies and
16 gentlemen, that concludes our presentations for this
17 morning; that's the only registrations we've had. We are
18 going to make ourselves available at eleven o'clock
19 should there be any walk-ups or people who have decided
20 that they'd like to make some presentations. And then we
21 do have four (4) presenters registered for this
22 afternoon; they're starting at 2:30 and they should run
23 through till four o'clock.

24 So at this juncture we're finished for
25 this morning. We will be on standby. I can assure you

1 that the panel works very, very hard in between the
2 public forums, on analysis and other things; looking
3 through the context of your submissions, like here is Mr.
4 Peel which we'll get from the secretariat.

5 So, again, on behalf of the panel and
6 Albertans thank you very much for attending this morning
7 and we're going to adjourn, coming back at 2:30 with a
8 supplemental opportunity at 11:00 if other people show
9 up. Thanks very much.

10

11 --- Upon recessing at 9:27 a.m.

12 --- Upon resuming at 2:30 p.m.

13

14 THE CHAIRPERSON: Good afternoon, ladies
15 and gentlemen. Welcome and on behalf of the Royalty
16 Review panel, thank you for your interest in our work in
17 Alberta's Royalty and Tax Regime.

18 I'd like to introduce the panel that's
19 here today. On my far right is Andre Plourde; next is
20 Judith Dwarkin; my name is Bill Hunter; and to my left is
21 Ken McKenzie. Two (2) of our team members are not with
22 us, this opportunity in Edmonton, that's Mr. Chrapko and
23 Mr. Spanglet, who are both out of country.

24 At the end of our table is Ashley, who is
25 a renowned timekeeper, extremely stern. Don't let her

1 facial expressions scare you, but she's here to support
2 you in timing your ability to make a contribution. So I
3 would keep a close eye on our timer.

4 A couple of housekeeping opportunities.
5 Each individual presenter has been allotted five (5)
6 minutes and that will be followed by an opportunity for
7 the panel to ask for clarification. Each organization
8 will allotted ten (10) minutes and the panel will take
9 the same liberties with asking questions of
10 clarification.

11 If you have a submission with you today,
12 we'd gladly accept it. We have a secretariate table in
13 the back corner or the registration table outside. If
14 you have not and you wish to do so, if you check on our
15 website, there are a variety of means of making sure you
16 get your written contribution to us through fax, mail,
17 emails, the internet system.

18 In case of an emergency I just want to
19 call your attention to the nearest exits; that we have
20 one (1) at the back of the room that you came through.
21 We have another emergency exit at this end of the room
22 and we also have one (1) in this corner. So familiarize
23 yourself with which way you're going to go should we have
24 an occasion to leave in a quick order.

25 To enhance the opportunity for our

1 presentations and our learning opportunities today, I
2 would ask that everyone shut off their Blackberrys and
3 their cell phones. If you need to keep them on for
4 emergency situations, please put it on vibrate or some
5 less intrusive method of having people contact you.

6 For the media present today, I'd be happy
7 on behalf of the panel to speak to you at the break
8 immediately following our series of presentations. I'd
9 also ask that you respect the space of the panel and the
10 presenters during the proceedings.

11 And again, on behalf of the panel and all
12 Albertans thank you very much for your time and your
13 interest in attending this public forum.

14 This afternoon we had four (4) presenters
15 registered for the 2:30 timeframe. One (1) has just
16 called and said they are unable to attend, so, we will
17 have three (3) presentations.

18 The first one is Mr. Ross Van-Tonningen.
19 If you're here, sir, please come and join us for a
20 presentation. I hope I pronounced your name properly.

21 THE CHAIRPERSON: Welcome, sir.

22

23 PRESENTATION BY MR. ROSS VAN-TONNINGEN:

24 MR. ROSS VAN TONNINGEN: First a couple
25 of comments on questions that were raised yesterday by

1 the panel. One (1) of them was whether the royalties are
2 the right vehicle for dealing with environmental or
3 economic issues. I think not.

4 If you apply the KISS (phonetic) principle
5 they have but one (1) function, to get the resource owner
6 an appropriate share of the economic rent.

7 Secondly, why only talk about the oil
8 sands royalties? First of all, the conventional oil and
9 gas royalty structure seems to be so convoluted that it's
10 incomprehensible to us ordinary mortals. On the other
11 hand, and more importantly, conventional oil and gas is
12 the past, oil sands is the future. So we'd better get it
13 right.

14 And you have my hardcopy of my
15 presentation. Don't let the colours throw you. It's not
16 a political statement, it's just a colour preference. It
17 raises a number of points including:

18 1. The 1 percent oil royalty regime
19 annual cost are recovered. This is not the problem.
20 Short payback periods actually add value.

21 2. The share of net formula. It
22 downloads risk onto the resource owner, it boosts
23 inefficiency, and it promotes creative accounting.

24 3. The 25 percent of net number is
25 inconsistent with the Province's target of securing a 20

1 to 25 percent share of the revenue stream for the benefit
2 of the Alberta taxpayer.

3 4. The appropriateness of the 20 to 25
4 percent targets is below what the industry pays elsewhere
5 suggesting that we let our resources go down the road too
6 cheaply.

7 5. The return on investment for the
8 operator. At the end of the of 1 percent royalty phase
9 the operator has zero investment left in the process --
10 in the project and by definition therefor would have an
11 infinite return on capital if it wasn't for the working
12 capital involved in the project, which appear quite
13 inordinate.

14 6. Risk transfer. The present oil sands
15 regime downloads onto the Province risk and rewards it
16 poorly, and alleviates risk for the operator and rewards
17 him generously. That is not good government policy.

18 7. Retroactivity and the sanctity of
19 contracts. Contracts are not what they used to be, they
20 used to be inviolable. More specifically, for the past
21 twenty-five (25) years the oil companies have acted like
22 hockey players seeking new and improved royalty contracts
23 whenever the old ones don't suit them anymore. But
24 what's sauce for the goose is sauce for the gander and
25 besides, now even US Congress is into getting into

1 contract revision.

2 8. The "oh, but it might work" factor.
3 Oil sands development is driven to a critical degree by
4 demand from south of the border for oil from convenient
5 politically secure places. So slowing or halting it
6 because of less exorbitant returns for the operators than
7 before would interfere with Washington's plan for
8 continental energy self-sufficiency.

9 In addition, the Chinese, the Indians and
10 the Europeans would be quick to fill any vacuum. And
11 finally, the companies themselves, grumble as they may,
12 are also not adverse to -- either to getting their oil
13 from politically safe places.

14 9. Costs are putting the oil sand
15 development at risk. Shell's latest expansion is costing
16 it four (4) times what it would four (4) or five (5)
17 years ago. Yet, Shell canned its CEO last fall, told the
18 then-shareholders it would be profitable at thirty
19 dollars (\$30) a barrel. And the proof in the pudding is
20 in the eating.

21 Not long after that, the parent company
22 took Shell private and recently an official of Statoil -
23 the new kid on the block - suggested the Calgary oil
24 patch is out of touch with the real world and dismissed
25 its concerns about new environmental standards by saying

1 that even if they add one dollar (\$1) a barrel to cost,
2 with forty dollar (\$40) oil, that's not an issue.

3 10. What's the scope for increasing the
4 Province's take? During the Alaska oil -- the Alaska's
5 royalty revenue review, the Alaska Institute for Social
6 and Economic Research suggested that from an industry
7 perspective the Alberta oil sands were financially the
8 second most attractive in the free market environment
9 after the Gulf of Mexico. So there is room.

10 A tax rea -- presentation had two (2)
11 appendices on issues that while not germane to the
12 royalty discussion, in the narrow sense, are in a broader
13 sense so, looking forward. Personally, I'm fascinated by
14 the commonsense aspect of NC2 combustion, but I can
15 understand why the industry is not enamoured with it.

16 In closing, let me thank you for being
17 here while it's so nice outside.

18 THE CHAIRPERSON: Thank you very much,
19 sir. I appreciate that.

20 Ken...?

21

22 QUESTIONS BY BOARD:

23 MR. KEN MCKENZIE: Thank you very much
24 for your presentation. We haven't had a chance to look
25 at the written one, we just got it. We'll study it more

1 carefully later.

2 Just one (1) of the things I'd ask you to
3 perhaps elaborate on. You indicated that the net post-
4 payout royalty formula, the 25 percent of net income,
5 downloads risk onto resource owners and promotes creative
6 accounting.

7 Could I just ask you to elaborate on that
8 point a little bit further.

9 MR. ROSS-VAN-TONNINGEN: Let me first
10 deal with the creative accounting. Let me give you an --
11 an interesting example which I find fascinating. Do you
12 remember the movie Forest Gump? The poor chap who wrote
13 the screenplay for that sold it for two hundred and
14 fifty-thousand (250,000) cash upfront and a share of the
15 net. And once the -- the film had made 750 million
16 dollars he went to the studio and asked them where his
17 share of the net was, only to be told the film hadn't
18 made any money yet because there was all kinds of
19 management fees, distribution fees, placement fees, legal
20 fees, accounting fees, whatever you can think of and that
21 -- and that made it a non-profit making proposition.

22 The only one that like the net formula
23 are bureaucrats because it gives rise to endless
24 meetings. But, what is an eligible cost and what isn't
25 an eligible cost?

1 much.

2 THE CHAIRPERSON: Judith...?

3 MS. JUDITH DWARKIN: Thank you and thank
4 you for your succinct summary of your report. I look
5 forward to reading it. A couple a questions, or maybe
6 just one (1) question.

7 You indicated at the outset that the --
8 the 1 percent gross royalty, you're okay with that, sort
9 of, part of the structure, the 1 percent gross --

10 MR. ROSS VAN-TONNINGEN: Yeah.

11 MS. JUDITH DWARKIN: -- that applies to
12 payout, wherever that might be.

13 MR. ROSS VAN-TONNINGEN: Yeah. Short --
14 short payout periods. Companies love them, you know, and
15 you and I would love them, too, because the sooner you
16 can get your money back --

17 MS. JUDITH DWARKIN: Hmm hmm.

18 MR. ROSS VAN-TONNINGEN: -- the sooner
19 you can redeploy it somewhere else.

20 MS. JUDITH DWARKIN: So the basic
21 structure of going from a gross to some kind of a net
22 you're okay with?

23 MR. ROSS VAN-TONNINGEN: Yes.

24 MS. JUDITH DWARKIN: If --

25 MR. ROSS VAN-TONNINGEN: I often argue --

1 I've often argued that we shouldn't even worry about
2 depreciation. We should allow people to write-off things
3 right away --

4 MS. JUDITH DWARKIN: Okay.

5 MR. ROSS VAN-TONNINGEN: -- and then get
6 the tax kick in that much quicker.

7 MS. JUDITH DWARKIN: We'll order that
8 right away. But your issue is cost -- not enough
9 scrutiny of the costs that are used in deriving the net
10 and the actual level at which the net rate is set, is
11 that correct?

12 MR. ROSS VAN-TONNINGEN: Well, if -- if
13 you try to get 20 to 25 percent of the revenue stream,
14 you will never get there with 25 percent of the net.

15 MS. JUDITH DWARKIN: Hmm hmm.

16 MR. ROSS VAN-TONNINGEN: It's just --

17 MS. JUDITH DWARKIN: By definition.

18 MR. ROSS VAN-TONNINGEN: -- it's almost -
19 - by definition --

20 MS. JUDITH DWARKIN: Hmm hmm.

21 MR. ROSS VAN TONNINGEN: -- it's
22 virtually imposs -- it's mathematical possible but --

23 MS. JUDITH DWARKIN: Hmm hmm.

24 MR. ROSS VAN-TONNINGEN: -- that in
25 practical terms it isn't.

1 MS. JUDITH DWARKIN: So we either need --
2 we need to change the objective then?

3 MR. ROSS VAN-TONNINGEN: Yes.

4 MS. JUDITH DWARKIN: That's one (1) way
5 to address that?

6 MR. ROSS VAN-TONNINGEN: Yes.

7 MS. JUDITH DWARKIN: And your other issue
8 is respect to costs and scrutiny of costs?

9 MR. ROSS VAN-TONNINGEN: Yeah, yeah.

10 MS. JUDITH DWARKIN: Okay. Thank you.

11 MR. ROSS VAN-TONNINGEN: And -- and a
12 portion of the gross is simple. It's like, you know,
13 kids; one (1) for you, one (1) for me; one (1) for you --

14 MS. JUDITH DWARKIN: Hmm hmm.

15 MR. ROSS VAN-TONNINGEN: -- one (1) for
16 me.

17 MS. JUDITH DWARKIN: So you're thinking a
18 50/50 split of --

19 MR. ROSS VAN-TONNINGEN: Well, I'm not
20 saying -- I'm not saying --

21 MS. JUDITH DWARKIN: -- whatever stream?

22 MR. ROSS VAN-TONNINGEN: -- that the
23 fifty (50) -- in the presentation at some point I use 20
24 percent but still leaves -- it seems to leave an awful of
25 room for a very generous return on working capital.

1 MS. JUDITH DWARKIN: Okay. Thank you.

2 THE CHAIRPERSON: Andre...?

3 MR. ANDRE PLOURDE: Thank you very much.

4 Just a quick question. In your presentation -- I just
5 had a very quick look -- you make a -- you talk about the
6 conventional oil and gas and make a statement about how
7 you see -- you think that -- you would argue that the
8 risk is distributed equally between the owner, the
9 Province, or the people of the Province, and the operator
10 but you see this very differently for the oil sands.

11 MR. ROSS VAN-TONNINGEN: Yeah.

12 MR. ANDRE PLOURDE: Now, on -- how do you
13 get to the conclusion that the risk is shared equally
14 between the owner and the -- the producer in terms of the
15 conventional oil and gas?

16 MR. ROSS VAN-TONNINGEN: If I -- I
17 haven't my presentation with me here but I think I -- I
18 mentioned there that the price risk is -- is shared --

19 MR. ANDRE PLOURDE: The market risk?

20 MR. ROSS VAN-TONNINGEN: The market risk,
21 yeah.

22 MR. ANDRE PLOURDE: Yeah. On an equal
23 footing?

24 MR. ROSS VAN-TONNINGEN: Yeah, so --

25 MR. ANDRE PLOURDE: How do you --

1 the operating profit will also go up and therefore there
2 is a sharing in that risk, you know. But accept where --
3 my argument there is that while it's pari passu in the
4 conventional way --

5 MR. ANDRE PLOURDE: Hmm hmm.

6 MR. ROSS VAN TONNINGEN: -- it's on the
7 ratio of three (3) to one (1) on oil sands.

8 MR. ANDRE PLOURDE: Okay. But -- so let
9 me try to say, what would it take in the oil sands to
10 make it pari passu?

11 MR. ROSS VAN-TONNINGEN: As your
12 colleagues guessed, it's 50/50 that would make it pari
13 passu.

14 MR. ANDRE PLOURDE: Okay. Thanks. Could
15 I just ask you -- in terms of conventional oil and gas,
16 you said this is the past as opposed to the future -- how
17 should we think about things like enhanced recovery in --
18 in about 30 percent of oil in place has been taken out of
19 conventional reservoirs, should we not worry about, kind
20 of, possibilities of future expansions of production in -
21 - in conventional?

22 MR. ROSS VAN-TONNINGEN: Oh, I'm one of
23 those people who believe that one (1) of the biggest, you
24 know, oil reserves that there are, the oil that hasn't
25 become profitable yet --

1 MR. ANDRE PLOURDE: Right.

2 MR. ROSS VAN-TONNINGEN: -- but it will
3 only become profitable once the prices get high. It --
4 many years ago I was at the Hibernia and they had -- at
5 the time they were talking about 625 million barrels of
6 oil in -- in reserve and asked the people there on four
7 (4) different occasions in four (4) different venues, but
8 what was the price structure? And I never got an answer.
9 But every time -- ever since that time whenever the price
10 of oil goes up, the oil sands, lo and behold, the reserve
11 base has gone up.

12 MR. ANDRE PLOURDE: Hmm hmm.

13 MR. ROSS VAN-TONNINGEN: And as for the
14 point that you were making, what I've used with a number
15 of people on this issue of -- of the oil in the ground
16 that hasn't been exploited yet.

17 My understanding is that the Redwood pool,
18 just north of here, still has over a billion barrels of
19 oil in the ground. And the operator not long ago spent
20 several million dollars to access another 27 mill --
21 million barrels of that, but the rest of it is still
22 sitting there waiting for the price to go up. There's
23 lots of oil, but at the hundred (\$100) dollars, two
24 hundred (\$200) dollars or three hundred (\$300) a barrel.

25 THE CHAIRPERSON: Okay. Good. Thank

1 you. Sir, I -- I didn't hear it in -- in your
2 presentation and I -- I don't see it in the information,
3 but do have an opinion about the energy development and
4 the -- and the public's fair share in the context of
5 without value-added opportunities and with value-added
6 opportunities?

7 MR. ROSS VAN-TONNINGEN: No.

8 THE CHAIRPERSON: Okay.

9 MR. ROSS VAN-TONNINGEN: No.

10 THE CHAIRPERSON: And the other very
11 quick question is: How did you find out about our forum
12 today?

13 MR. ROSS VAN-TONNINGEN: A friend of mine
14 told me, who actually worked for the government.

15 THE CHAIRPERSON: Okay.

16 MR. ROSS VAN-TONNINGEN: And as it turned
17 out, I've been playing around with this for some time, so
18 I said, well, I've got something that will do the trick--

19 THE CHAIRPERSON: You bet.

20 MR. ROSS VAN-TONNINGEN: -- so I came
21 here.

22 THE CHAIRPERSON: We thank you very much,
23 sir, for your presentation today.

24 MR. ROSS VAN-TONNINGEN: Thank you.

25 Thank you.

1 THE CHAIRPERSON: Next opportunity is to
2 hear from Mr. Gunderson, if you are ready, sir.

3 MR. DON GUNDERSON: Yes.

4 THE DON CHAIRPERSON: Welcome.

5

6 PRESENTATION BY MR. DON GUNDERSON

7 MR. DON GUNDERSON: Hi. I'm here just as
8 an ordinary citizen. I've lived in Edmonton for about
9 sixty (60) years. My comments -- I actually participated
10 in the affordable housing forum and there I had a deep
11 knowledge of the issues. I readily admit I don't
12 understand oil field royalties and what you're going here
13 is just opinion and impressions, and I readily admit
14 that. However, I think they're the same opinions and
15 impressions of probably 80 percent of Alberta.

16 Now, I -- I do have a B.Com and twenty
17 (20) years experience as an auditor which doesn't give me
18 any experience in oil field royalties, but I think it
19 gives me a good sense of when that somebody's trying a
20 snow job.

21 For example, the industry says the royalty
22 regime is still appropriate and fair because it
23 recognizes the high oil sands cost and investment risks.

24 I think if they see the risks as such a
25 huge factor, maybe they would prefer that Alberta share

1 the risks by paying 50 percent of the costs and getting
2 50 percent of the revenues, not profits because they can
3 juggle that, but revenues. I think Norway does something
4 like that and they get a lot better return than Alberta.

5 I think the most solid evidence that the
6 current royalties are too low is the fact that the oil
7 companies are happy with the current rates.

8 I want to make three (3) points and again,
9 these may be simplistic, but I think they're accurate.
10 We don't want a fair price, we want the best price.

11 Secondly, we should be prepared to use
12 increased royalty rates as a way of moderating the pace
13 of development.

14 And three, please, I wish our government
15 would not get weak-kneed when the oil company asserts
16 that higher royalties will call it -- cause -- cause them
17 to take their investment dollars elsewhere.

18 On the topic of not a fair price,
19 that's -- we want the best possible price; that's
20 something you would demand even from your stock broker.
21 That's the least we should expect from our government as
22 they sell off our non-renewable resources.

23 The problem I see with the mandate given
24 to the panel is that fair may be measured against curr --
25 current royalty rates in other parts of the world and

1 what the oil companies say they will accept without
2 taking their investment dollars elsewhere. Whereas we
3 need a royalty rate as good or better than that enjoyed
4 by another oil producing region and we have to reject --
5 be prepared to reject any royalty structure that does not
6 cover 100 percent of the cost of development; boom
7 created problems in the area of housing, environment,
8 infrastructure, crime and other social costs. This
9 hasn't happened today.

10 Plus sufficient return to invest in
11 diversifying economy, plus a return to all Albertans to a
12 decrease in our quality of life from more congestion,
13 housing prices, crowding of lakes and rivers and other
14 recreational areas and so forth.

15 The -- with respect to increasing the
16 royalty rates to moderate the pace of development, a
17 quote attributed to Fred McDougall (phonetic), a retired
18 forestry indus -- products industry executive and former
19 Alberta Deputy Lands and Forest Minister, says:

20 "In fact, a royalty increase is the
21 best way to bring things back to
22 normal. It is an objective and neutral
23 way to delay or eliminate weak
24 projects."

25 He also called for a progressive oil sands

1 royalty regime that would limit plant expansions
2 eligibility for a low construction period, raise the
3 Government's production revenue -- again, revenue not --
4 not share of net -- share if oil prices rise and penalize
5 -- I only have about 2 minutes, may I?

6 THE CHAIRPERSON: No, no. Keep going.

7 MR. DON GUNDERSON: Okay. And -- and
8 penalize companies that fail to cut air and water
9 pollution. The current regime transfers oil sands income
10 to Ottawa because Federal corporate taxes represent a
11 bigger share of production revenues than do provincial
12 royalties.

13 Now, why is it important that the royalty
14 rates are high enough to moderate the pace of
15 development? Because we have a premier who will not put
16 the brakes on development.

17 Yet a recent study commissioned by the
18 Pembina Institute found that 71 percent of Albertans want
19 the suspension of new oil sands development, including
20 such luminaries as Peter Lougheed and Preston Manning.

21 To -- to recommend that royalties increase
22 to the point where it regulates or -- or evens out and
23 slows the pace of development, it's important to
24 understand the benefits of delaying production, of
25 spreading it out. And I'll -- I'll enumerate these.

1 Cleaner technologies may be available even
2 in the near future. The oil sands are set to become the
3 largest single source of global warming pollution in
4 Canada if all the proposed development takes place. Now
5 we even find that clean air regulations will exempt oil
6 sands.

7 Secondly, we will be able to get a better
8 deal in the future. You don't have to be an economist to
9 understand that the world's demand for oil is growing
10 while supply, particularly from areas with a safe
11 political and cultural climate, will continue to become
12 more scarce and more valuable.

13 I think everybody can relate to the
14 experience of, well, I owned a house or I owned a
15 property ten (10) or fifteen (15) years ago and I sold it
16 for X dollars and boy, am I kicking myself now because
17 it's worth ten (10) or fifty (50) times as much. It's
18 the same, I believe, is going to happen in the oil
19 industry.

20 "In the eyes of ec --" This is a quote
21 and I forgot -- I didn't even get who it was from.

22 "In the eyes of economists, the most
23 insane aspect is that we are giving our
24 resources away. Yes, we are making
25 lots of money now, but that is mostly

1 from the construction boom, not from
2 the stuff being taken out of the
3 ground. The Provincial Government
4 makes more money from gambling than it
5 does from oil extraction and the
6 Heritage Fund remains almost stagnant
7 while resources -- those resources
8 disappear south, where major profits
9 are being generated at US upgraders."
10 That was from an article May 11th in a
11 journal.

12 Delaying development may also alleviate
13 the increased cost now associated with trying to build
14 projects in the midst of an already overheated economy.
15 Delaying development would give the time necessary to
16 apro -- insure appropriate regional pra -- planning and
17 time to assess impact on water and air. Here's a -- a
18 quote from a May 8th Canada.com story.

19 "With six more bitumen upgrader
20 projects in the pipeline, questions are
21 being asked about the cumulative impact
22 of all this industrial development in
23 upgrader alley -- alley."

24 Little is known about the overall impact
25 on air quality in the region and on the North

1 Saskatchewan River, of such a large concentration of
2 industrial projects. The EUB, Provincial Regulatory
3 Authority, cannot look ahead to the cumulative impact of
4 so many large industrial projects. The Government, so
5 far, has not taken on that job, either, and that's a
6 concern.

7 THE CHAIRPERSON: Mr. Gunderson, your
8 time has run out.

9 MR. DON GUNDERSON: Okay. Could --
10 sorry.

11 THE CHAIRPERSON: So can I ask you, just
12 in a paragraph, to give us your closing comments?

13 MR. DON GUNDERSON: Sure. Okay. I would
14 say that watching what hap -- watching what happened to
15 the Alberta Housing Task Force recommendations, were
16 watch a situ -- I'm sorry for this, it's the best I can
17 think of -- we watched a situation where landlords
18 basically forcibly had their way with tenants and the
19 Government seemed to see its jars holded -- its job is
20 holding the jar of Vaseline. Sorry, what are they going
21 to do, raise my rent?

22 I think the same thing can happen here.
23 You make your recommendations, but unless they're strong
24 enough, they're going to ignore your recommendations to
25 any recommendations that get in the way of unrestricted

1 development.

2 THE CHAIRPERSON: Okay. Thank you.

3 MR. DON GUNDERSON: Thank you.

4 THE CHAIRPERSON: Allow us too, a few
5 questions, if you will.

6 MR. DON GUNDERSON: Oh, sure.

7

8 QUESTIONS BY BOARD:

9 THE CHAIRPERSON: Judith...?

10 MS. JUDITH DWARKIN: Thank you for your
11 presentation. For someone who says they don't know much,
12 you actually have a lot of interesting things to say.

13 You talk about using the royalty rate to
14 moderate the development pace' so essentially to use the
15 royalty system as like a macroeconomic stabilization
16 tool, is that what you're suggesting?

17 MR. DON GUNDERSON: Absolute -- yes, I
18 don't -- I don't think, with all due respect, I don't
19 think anyone in the Government is capable of penetrating
20 the oil industry's arguments that these are all the
21 costs, we must have this.

22 I don't think until they get a take it or
23 leave it, this is comparable with the best in the world
24 in royalty rates. I don't think until that happens, the
25 oil industry -- you'll know what -- what the oil industry

1 is capable of.

2 MS. JUDITH DWARKIN: So you're -- you're
3 really advocating taking the collection of economic rent
4 or getting the fair share issue is really as a separate
5 issue and simply using the royalty system to regulate the
6 pace of development and whatever share comes out of that
7 is -- is what the share is.

8 MR. DON GUNDERSON: I think it's -- it's
9 exactly the same thing. I think the best rate of return
10 and a fair one is one that will also control the pace of
11 development. I think if it leads to unrestricted
12 development, we're not getting a fair share because
13 they're too anxious to get in, take the resources and get
14 out.

15 MS. JUDITH DWARKIN: And what would you
16 say to the impact on county economies, municipal
17 economies, that jobs they are lost or the tax --

18 MR. DON GUNDERSON: Well --

19 MS. JUDITH DWARKIN: -- base is --

20 MR. DON GUNDERSON: Right.

21 MS. JUDITH DWARKIN: -- slowed because of
22 this pace that --

23 MR. DON GUNDERSON: Well, we have the
24 opportunity now because we have enough in the works to
25 maintain full employment for many years.

1 MS. JUDITH DWARKIN: Hmm hmm.

2 MR. DON GUNDERSON: And I also think if
3 they had the regional authority in place, you wouldn't
4 have the situation, where you do now, where oil companies
5 are being given unnecessary incentives in order for the
6 counties to try and get a project away from another
7 county or district.

8 MS. JUDITH DWARKIN: Thank you.

9 THE CHAIRPERSON: Andre...?

10 MR. ANDRE PLOURDE: Thank you and thanks
11 for your presentation. You mentioned, as well -- you got
12 into a discussion of environmental issues towards the end
13 in terms of accumulative effects and these kinds of
14 things.

15 Do you see this as something that's
16 appropriate for -- to use the royalty system to address
17 as well, or do you see that as other policy instruments?

18 MR. DON GUNDERSON: No, the oil boom
19 created the costs of housing. It created costs in -- in
20 all of these areas created problems. The fairest thing
21 on earth is if the oil revenues pay for it. Property
22 owners shouldn't have to pay for it, they shouldn't be
23 looking for other sources of revenue in the
24 municipalities like extra taxes on property transfer. It
25 should all come from the oil revenues because the oil

1 boom is creating it.

2 MR. ANDRE PLOURDE: But that's kind of
3 different from saying -- using the royalty structure to
4 do that. It could be other types of levies on the oil
5 and gas industry.

6 Would that be fair or do you -- do you see
7 this as largely as royalty issue?

8 MR. DON GUNDERSON: No, I'm not an expert
9 in -- on the mechanics on it and -- but I do know that
10 however we get the resources from it, whatever formula,
11 two (2) things; it should be enough to cover 100 percent
12 of those costs, not download them onto taxpayers --

13 MR. ANDRE PLOURDE: Right.

14 MR. DON GUNDERSON: -- in municipalities.

15 MR. ANDRE PLOURDE: Right.

16 MR. DON GUNDERSON: And I forgot my other
17 thought there. I'm sorry.

18 MR. ANDRE PLOURDE: Compensation for the
19 decrease in the quality of life.

20 MR. DON GUNDERSON: Right. It's really
21 interesting that a Government's priorities is to get more
22 labour in here. Their priorities should be to spread
23 things out so that we can have a longer period of full
24 employment with Alberta labour and not be left with a
25 larger population that puts re -- strain on all our

1 resources and when the boom is over, we're left with that
2 larger population to support.

3 MR. ANDRE PLOURDE: Okay. Thank you.
4 You've spoken mostly about the oil sands regime or the
5 story you've -- you've said has -- has been largely about
6 oil sands; my interpretation of it, maybe it's incorrect.

7 What are you feeling about the
8 conventional oil and gas industry as well? Is it subject
9 to the similar types of -- similar types of -- of
10 creating the similar types of problems or do you see this
11 mostly as an oil sands issue?

12 MR. DON GUNDERSON: Well, no. I mean,
13 when I read that they were given a very low rate in order
14 -- during a period in which they were trying recoup their
15 costs -- well, I'm thinking, Well, my God they can throw
16 anything in there, and they will. You know, not knowing
17 anything about the deep accounting aspects, but just
18 knowing how the way -- the way the world works, oil
19 companies or any corporation cares nothing about Alberta
20 citizens, they care only about profit.

21 And an oil corporation is no better
22 than the tobacco -- tobacco industries that promised us
23 that smoking was -- was good for us and not addictive.
24 It's exactly the same. And that's not -- that's not
25 prejudice or -- or anything, it's just knowing what --

1 that's the way the world works.

2 MR. ANDRE PLOURDE: Okay. Great. Thank
3 you

4 MR. DON GUNDERSON: Thank you.

5 THE CHAIRPERSON: Ken...?

6 MR. KEN MCKENZIE: I just want to explore
7 more --

8 THE CHAIRPERSON: Go ahead.

9 MR. KEN MCKENZIE: Yeah. I just want to
10 explore with you for a minute the -- this distinction you
11 made between a fair price versus -- versus the best
12 price.

13 In particular, you -- I thought I heard
14 you say that it's not appropriate to -- to measure the
15 shares in other jurisdictions, for example, in term of
16 determining the best price in -- in Alberta or -- or
17 under the Alberta royalty system. Could you sort of
18 expand on that? I mean, how --

19 MR. DON GUNDERSON: Yes. I'd say that --
20 that was just a starting point.

21 MR. KEN MCKENZIE: Right.

22 MR. DON GUNDERSON: Let's look at all
23 alternatives to see if there's a way that we can get
24 more, a bigger percentage of revenue. I'm not the
25 slightest bit concerned about being fair to the oil

1 companies. I don't think they're the slightest bit
2 concerned about being fair to me.

3 MR. KEN MCKENZIE: Hmm hmm. Okay.

4 THE CHAIRPERSON: Thank you very much,
5 sir.

6 MR. DON GUNDERSON: Thank you.

7 THE CHAIRPERSON: I really appreciate you
8 coming forward and making your contribution.

9 Okay. The next opportunity is to hear
10 from Mr. Mark Nelson, if you are ready, sir?

11 MR. MARK NELSON: Thank you, Mr.
12 Chairman, panel.

13 THE CHAIRPERSON: Just before you
14 start...

15

16 (BRIEF PAUSE)

17

18 THE CHAIRPERSON: I Appreciate you
19 waiting.

20 MR. MARK NELSON: No -- no worries.

21 THE CHAIRPERSON: Welcome, sir.

22

23 PRESENTATION BY CHEVRON CANADA:

24 MR. MARK NELSON: Thank you, Mr.

25 Chairman, panel. I'm Mark Nelson. I'm the -- the

1 president of Chevron Canada and in particular, Ashley,
2 thank you for -- I've watched the looks, I understand
3 completely.

4 Something that might -- that might
5 surprise you a bit today is that my -- my intent only
6 from Chevron is to give you a few perspectives to
7 consider as you go through your deliberations here over
8 the -- over the next month or so. But there are a few
9 things that you will not hear from me.

10 One of the things that you'd not hear from
11 Chevron is that a complaint about the process or the
12 review. We think it's actually a very good time to do
13 this. We'll talk about that a little -- a little bit
14 later in my discussion. And -- and also I think that
15 what you'll -- what you'll find is this is an opportunity
16 to get clarity as to where Alberta fits amidst the rest
17 of the world. There were comments from your other
18 panellists about that as -- as well.

19 So my goal will to leave you with the idea
20 that Chevron believes it can be part of the solution and
21 that from our perspective we have to keep the royalty
22 review in the context of many of the levers that are
23 available to the Government to consider.

24 And then finally, that this is a unique
25 opportunity for Alberta to solidify its position in the

1 investment community. So we'll -- we'll talk about that
2 a bit.

3 Chevron, as you might suspect believe
4 we're in a pretty good position to give you some
5 perspective on this, primarily because we do business in
6 one hundred and eighty (180) countries around the world.
7 And -- and for good and bad I've had a chance to oversee
8 business in one hundred and eighty (180) countries and I
9 can tell you that we're very fortunate to be here in
10 Canada. It's a great -- great place to be, but we can --
11 we can probably do a little bit better.

12 And what I'd like to talk about is, being
13 here for nearly seventy (70) years and being the largest
14 thermal oil producer in the world, we can probably give a
15 perspective here.

16 What you won't hear us do today is to
17 give you a proposed solution because, as evidenced by our
18 other discussion leaders here today, the definition of
19 success is very different from person to person, so we'll
20 try to just give you some things to think about.

21 If you look at the current royalty regime
22 and step back, from 1996 to present, as numbers that I
23 believe you've already seen, \$45 billion of capital
24 investment has been garnered by Alberta; just under \$4
25 billion revenue from crown sales and royalty. And I

1 believe now about half of the -- just over half of the
2 operating projects are now at the 25 percent royalty
3 rate.

4 Depending upon your definition of success,
5 some would say that has been successful. But whether you
6 agree whether that's successful or not, it's a very good
7 time to have this discussion.

8 There are conversations going on around
9 the world just like this regarding regime reviews,
10 physical reviews, all over the world, from Norway,
11 obviously you've read a lot; about Venezuela, not much
12 discussion there, but changes in Venezuela; Angola; the
13 UK. Many parts of the world are going through a similar
14 exercise, so there's an opportunity to deliberately
15 position Alberta in whatever you choose as a -- as a good
16 place to be from an investment climate standpoint.

17 That's reason number 1 why we think
18 this is good. The other one is there's -- because of the
19 use of the term fair share for Albertans, which we
20 actually support. Definition of fair, at least with my
21 children, is in the eye of the beholder and I think
22 getting more facts out is probably helpful for -- for
23 everyone, so we're -- we're hoping that this process will
24 do that.

25 Once we come to a -- a collective

1 answer, our hope is that we can use existing knowledge --
2 and this is the existing energy department -- to sustain
3 progress towards the goals that you set, and the
4 opportunity not to just make this, you know, every ten
5 (10) years, but to make sure over time on a sustained
6 basis we make it to our collective objective.

7 The challenges I mentioned earlier is
8 we have so many moving pieces today; there are many
9 variables in this -- in this equation as evidenced on the
10 slide. There are some that -- that the government does
11 not directly control: escalating costs, the quality of
12 the -- the reservoirs, the quantity in the reservoirs;
13 but things like the -- the federal ACC, which we talked
14 about or heard about in March, land use balance, royalty
15 provincial tax return.

16 The challenge is if all those levers
17 aren't pulled in -- in the right direction or
18 thoughtfully, you may end up getting a consequence you
19 did not intend in the -- our -- our recommendation is
20 just to make sure that you keep the Royalty Review in
21 context of all of the others as you try to get to your --
22 your fair share equation.

23 In our -- in our -- in the oil industry,
24 many people spend time trying to figure out, you know,
25 where to -- where to invest their money as people have --

1 have discussed before. There are consultants all over
2 who try to assess government take. I'm sure there's a
3 better term for it, but that's the term that you -- that
4 you often -- that you often hear.

5 There's a slide here that conveniently has
6 Canada or Alberta nowhere on it and that's so we can talk
7 about the theory for just a moment. This particular
8 chart tries to take in -- into account all the leases,
9 the revenues, the taxes that would go to the government
10 in the countries that are listed here.

11 Often times people look at a chart like
12 this and they say, Well, that's not good or that's not
13 right. There's nothing good or bad about any of these,
14 they just have different, obviously, implications.

15 The interesting thing from an oil company
16 perspective is we take this kind of information along
17 with our view of how much resource is available and the
18 cost to get that resource to determine, you know, where
19 we put it in our particular que; that's at least, how
20 Chevron would do it.

21 Our -- our opportunity, I believe, is to
22 make sure that we've deliberately positioned Alberta in
23 this type of mix. If you've looked at, and I think the
24 material that CAPP has provided, one of the natural
25 questions is where -- where does Alberta fit in this?

1 And if you look at it from an oil sands
2 perspective, Alberta would probably be in that 50 percent
3 tank when you include royalties at 45 to 50 percent;
4 royalties, leases, crown sales; all the many of the taxes
5 -- all the many pieces of revenue that come in today. Is
6 that right or wrong? That all depends on what your
7 definition of success would be long-term.

8 The challenge from an oil company
9 perspective, of course, is the cost to acquire oil, at
10 least in the -- the oil sands mining. An in situ
11 operation is probably the fifth highest in the world
12 today, as we see it. Now can that change over time?
13 Hopefully, we will all get better at our technology and
14 we would strive towards that goal.

15 But the good news is with all of the
16 physical regimes being reviewed around the world, this is
17 an opportunity for Alberta to not only try to get a fair
18 share for its constituents today, but also into the
19 future by picking a deliberate spot to by, you know, on
20 this -- on this type of list.

21 Today, I think what you'll see in the CAPP
22 presentation of their materials is today, Alberta, from
23 an oil sands standpoint, is just barely in the top
24 cortile in regard to kind of investment climate and then
25 on new gas and conventional oil, it's in about the third

1 tier -- the third cortile. Again, not right or wrong,
2 just kind of how their viewed today versus others. But
3 that's not a Chevron view, that's that SARA -- the SARA
4 data.

5 So when I step back and look at all this,
6 I think it's great that you're -- you're listening to the
7 many differing view, including Chevron's, in this case.
8 And the opportunity is to make sure that you take the
9 Royalty Review in context of all other tools you have, as
10 well as make sure that we've deliberately positioned
11 Alberta, not just for us, but for our grandchildren.

12 And there's one (1) example that maybe
13 makes this poignant. I'll use the UK; it's one (1) of
14 the countries list there on the -- on the chart. In 2002
15 oil prices had started to -- started to come up just a
16 little bit and oil companies demonstrated some -- some
17 decent earnings from a public perception standpoint. The
18 UK Government saw that and chose to institute a 30
19 percent -- 33 percent increase in corporate tax to oil
20 companies.

21 The very next year, for two (2) years in
22 succession, they saw the lowest amount of investment
23 activity in the oil industry for the -- for the UK. Oil
24 prices skyrocketed. All of the sudden investment started
25 to happen without any other change. The Government --

1 the UK Government saw that, they instituted not only a 20
2 percent additional increase, but they added exploration
3 incentives. So they had an incentive and a tax increase.
4 And they projected for 2007 a 20 percent reduction in
5 activity.

6 Now, my only point -- point would be from
7 an Albertan perspective is making sure that we know where
8 we're trying to go so that we don't, you know, jigsaw
9 back and forth. I don't think that's good for the
10 industry; I don't think that's good Albertans. And this
11 has to do with pulling all those levers at, you know, at
12 the same time.

13 So I thank you for your time and I thank
14 you for your perseverance. With that, I'll let you fire
15 questions.

16 THE CHAIRPERSON: I'm sorry to say, but
17 you've cheated Ashley out of one card, so.

18 Judith...?

19

20 QUESTIONS BY BOARD:

21 MS. JUDITH DWARKIN: Oh, I get to go
22 first again. Thank you very much. I have a few
23 questions that relate to the written presentation that
24 you gave us beforehand --

25 MR. MARK NELSON: That's okay.

1 MS. JUDITH DWARKIN: -- so it may or may
2 not have been on your slides. I don't recall.

3 One (1) issue that we've heard a lot about
4 from other presenters and submissions to our website,
5 relates to the cost metrics, specifically applying to the
6 oil sands.

7 And I wondered if you have any comments on
8 any sort of Alberta specific cost drivers that appear to
9 be making the sector here more expensive to develop than
10 in other jurisdictions? Or -- or is Alberta just sort of
11 bubbling along suffering the same kind of cost escalation
12 as elsewhere in the world.

13 MR. MARK NELSON: You -- you can imagine
14 the -- the supply demand challenge on -- on contractors
15 is -- is occurring everywhere in the world, from -- at
16 least from Chevron's perspective. Is it greater in
17 Alberta than in some other areas? The answer would be
18 yes, but we certainly are experiencing the same thing in
19 Nigeria and Angola as we are here, in regard to relative
20 cost increases; at least from a Chevron perspective.

21 I think the challenge we have in Alberta
22 is the oil play, when we talked about oil sands, is
23 different than the conventional oil. So the cost to get
24 it and the quality of the asset that you're -- that
25 you're getting out is a bit different, so that increases

1 -- increases the cost for us.

2 MS. JUDITH DWARKIN: And those costs are
3 escalating relative to -- in the rest of the world?

4 MR. MARK NELSON: They are -- well, I'll
5 give you an example. Indonesia, which also has thermal
6 heavy oil extraction for us, the -- the cost is about
7 triple for Chevron in Alberta, versus Indonesia. Now, do
8 I believe that, you know, as an oil company we need to
9 find technology to close that gap? The answer is, of
10 course, yes.

11 MS. JUDITH DWARKIN: Thank you. You --
12 in your slide and in your written document you note
13 there's a issue with respect to bitumen valuation.

14 MR. MARK NELSON: Hmm hmm.

15 MS. JUDITH DWARKIN: -- would you
16 elaborate on what specifically you're referring to there?

17 MR. MARK NELSON: Well, there's obviously
18 a lot of conversations about bitumen in general. It's
19 one of those many levers that if pulled all by itself may
20 not accomplish the goals that you're all trying to --
21 trying to achieve. From our perspective we support as
22 close as we can get to a marketplace philosophy on
23 bitumen.

24 And I -- I believe the best thing we can
25 do today is, sort of, connect it to the heavy oil

1 activity. I believe that's CAPP's recommendation, so
2 that you have a -- not a cost-plus formula, but one
3 that's closest to a market indices. Over time obviously
4 that can change as the market grows.

5 MS. JUDITH DWARKIN: Okay. And one (1)
6 last quick question, if you don't mind.

7 MR. MARK NELSON: Hmm hmm. No worries.

8 MS. JUDITH DWARKIN: Again, in your -- in
9 your re -- submission you noted that because the large
10 oil sands projects tend to be staged, that at -- that
11 exposes them to greater risk because it's -- just
12 everything is kind of spread out.

13 Whereas my understanding of the staging is
14 that it's a tactic to reduce the risk by building
15 projects in -- in bite-size chunks, so that left me a
16 little confused as to what was what.

17 MR. MARK NELSON: That's okay, it
18 confuses us too. There's two (2) -- it has both parts of
19 that equation. Staging can, at times, reduce risk in
20 regard to learning and -- and adding to the resource base
21 over time so you can apply new technologies. That's one
22 thing that reduces risk from an oil company perspective.

23 What creates risk, in that context, is if
24 the rules change over that period of time for those --
25 those stages. So you get a bit of both; risk reduction

1 and risk creation, potentially.

2 MS. JUDITH DWARKIN: Thank you.

3 MR. MARK NELSON: Hmm hmm.

4 THE CHAIRPERSON: Ken...?

5 MR. KEN MCKENZIE: Let me talk a little
6 more about some of the risk issues.

7 MR. MARK NELSON: Sure.

8 MR. KEN MCKENZIE: You indicate in the
9 written presentation and -- and in some of your comments
10 also, that the existing royal -- royalty regime and I'm
11 talking specifically about oil sands here now, one of the
12 merits of it is that it's quite sensitive to economic
13 conditions in the sense -- and in particular -- risk and
14 -- and that's a -- a positive feature of the existing
15 system.

16 But one of the things that distinguishes
17 the oil sands regime from the conventional oil and gas
18 regime is that in the oil sands regime there's -- the
19 rate structure is not sensitive to prices; it's a flat 25
20 percent net payout and a flat 1 percent gross pre-payout.
21 Yet price sensitivity of rates --

22 MR. MARK NELSON: Hmm hmm.

23 MR. KEN MCKENZIE: -- okay, whether it's
24 pre or post payout --

25 MR. MARK NELSON: Right.

1 MR. KEN MCKENZIE: -- actually suggests
2 that the government shares in more of the risk, if you
3 will, upside and downside. You know, royalty rates may
4 increase as prices increase, so it -- it -- you know,
5 that's the good thing about risk --

6 MR. MARK NELSON: Right.

7 MR. KEN MCKENZIE: -- risk goes in it --

8 MR. MARK NELSON: Either way.

9 MR. KEN MCKENZIE: It goes both ways.
10 But also as -- as prices decline, price sensitive royalty
11 rates decline and -- and that also eats -- takes its
12 share of risks.

13 So what are your thoughts on that issue as
14 it applies to oils sands as -- as it -- as it compares to
15 conventional oil and gas.

16 MR. MARK NELSON: Good -- great question.
17 Obviously, first, it depends on what your goal is -- what
18 your goal is here.

19 MR. KEN MCKENZIE: Right.

20 MR. MARK NELSON: When you look at the --
21 anytime you have a flatline distribution at 1 percent and
22 25 percent, the -- the only way you connect to oil price
23 would be indirectly as the number of -- the dollars of
24 revenue get up, you get a -- a -- the same percentage of
25 a larger -- larger amount.

1 In the flatline situations you end up
2 getting risk on -- on either end -- on one side or the
3 other. If you scale it, you can reduce the risk at any
4 one (1) given point, but you spread it over the whole --

5 MR. KEN MCKENZIE: Hmm hmm.

6 MR. MARK NELSON: -- the whole path.
7 Either -- either can work. It does get a little bit
8 complicated, but certainly there are jurisdictions around
9 the world that have both.

10 MR. KEN MCKENZIE: Okay. Could I just
11 ask you one (1) more thing. And -- and this again has to
12 do with the sort of two (2) com -- components of the --
13 of the oil sands royalty regime. There's the upfront 1
14 percent gross versus the post payout 25 percent net.

15 How do you, sort of, view that trade-off?

16 I'm not going to put you on the spot and -
17 - and ask you, you know, if -- if we had a -- a pre-
18 payout gross rate of "X", what would -- what would be
19 the, sort of, compensating post-payout rate, because
20 that's not fair to do without some analysis.

21 But I'm just wondering how you view that -
22 - that sort of trade-off, if you will, in the fiscal
23 terms, which is part of the oil sands usually.

24 MR. MARK NELSON: And again, you have to
25 -- and I'll -- I've repeated this a couple times, but it

1 much.

2 MR. MARK NELSON: Sure.

3 THE CHAIRPERSON: Andre...?

4 MR. ANDRE PLOURDE: Thank you. Thanks
5 for your presentation and the written material. I'll
6 kind of have a question about both things, so I hope
7 that's -- we can discuss where -- where they're from in a
8 second.

9 You mentioned here and in your
10 presentation about 50 percent of the oil sands project
11 have now -- are now paying 25 percent of net royalty.

12 Do you know what share of production that
13 would represent?

14 MR. MARK NELSON: I do. Good question.
15 I believe it's in the CAPP material, but I'll misquote it
16 if I -- if I try, but --

17 MR. ANDRE PLOURDE: But I think it's
18 unfair to question you about the CAPP materials --

19 MR. MARK NELSON: Yeah, it is. But I --
20 but I brought it up, so it's okay.

21 MR. ANDRE PLOURDE: All right. So --
22 okay, good. If I take you back to the -- the -- the
23 cerograph that is in your -- your presentation, Alberta's
24 not in there as you pointed out. Roughly 50 percent is
25 kind of below where everybody is kind of charging, at

1 this stage. A few questions about that.

2 The first one is political risk. A
3 political risk is -- I mean, would vary dramatically in
4 this, yet it was not a factor that you mentioned in your
5 discussion of how your company approaches making
6 decisions on projects.

7 MR. MARK NELSON: Yeah, good -- good
8 point. And normally it's built into the numbers that you
9 see with SARA because they -- they will -- they will
10 consider -- and you can imagine that's subjective.

11 At somewhere like Nigeria, Venezuela,
12 that's kind of factored in to where they fall -- they
13 attempt to put an economic number on that. Quite
14 frankly, I can't do that, but it goes into our -- our
15 overall version of how we -- how we view that, but if --

16 MR. ANDRE PLOURDE: Go ahead, I'm sorry.

17 MR. MARK NELSON: I was just saying, the
18 50 percent number for Canada, you know, it puts it kind
19 of in the mix with much of the United States or the Gulf
20 -- the Gulf of Mexico. So it kind of falls into -- to
21 that particular range, but the cost of access, of course
22 here at least in oil sands, is quite a bit higher.

23 MR. ANDRE PLOURDE: But the political
24 risk is something that you take into consideration.

25 MR. MARK NELSON: Correct. Good

1 question.

2 MR. ANDRE PLOURDE: Now in terms of the -
3 - I guess, my -- my -- the next point is on this, the
4 access to the resource; in the sense you were saying,
5 that it -- it costs quite a lot to acquire oil here in
6 comparison to the rest of the world.

7 And if I were to kind of step back and
8 say, Well, that's not independent from the fact that --
9 that the Government take here is relatively lower than
10 everywhere else in the world. So that essentially,
11 that's a way it manifests itself because the oil is worth
12 more in the ground to the producer, then be prepared to
13 pay more of it.

14 Is that a fair interpretation of what --
15 what -- of what's going on?

16 MR. MARK NELSON: Yeah, I -- obviously, I
17 can't speak to the theory of the original -- the royalty
18 regime, but -- but most of us assume, and that may be
19 dangerous, that where -- where we fit today as Albertans
20 on the share of government take, that combined with the -
21 - the ease or difficulty in access have -- combined to --
22 to make up for one another to make this a -- a decent
23 investment location.

24 MR. ANDRE PLOURDE: But essentially --
25 maybe let me put it slightly differently. In a sense, if

1 -- if the royalty system were to take -- if the share --
2 if the Government take were in fact higher, a consequence
3 would be that the cost of acquiring oil in the ground in
4 the oil sands might just be lower.

5 MR. MARK NELSON: I'm not sure -- how
6 would that math -- I'm not sure I'm understanding how
7 that math would work. If the Government take were higher
8 the cost --

9 MR. ANDRE PLOURDE: Right. You'd be
10 prepared to pay less -- you'd be prepared to pay less to
11 get the oil in the oil in the ground.

12 MR. MARK NELSON: Oh, I understand. But
13 the point of accessing it, there's a technology cost to
14 that; that would not change how much somebody would be
15 willing to bid for a crown sale. Theoretically, I -- I
16 suspect would -- might go down, yes.

17 MR. ANDRE PLOURDE: Okay, thanks. If I
18 can put on -- on the cost issue you mentioned and you --
19 as you mentioned, you operate in Indonesia, you operate
20 in Venezuela as your material points out. And you
21 mentioned that the costs were higher in Alberta than
22 elsewhere and gave the example of Indonesia.

23 The issue -- what I would like to explore
24 with you is have these costs risen faster in Alberta over
25 the last -- pick a period; two (2), three (3), four (4),

1 five (5) years -- than elsewhere in the world?

2 They're higher, yes, but have they risen
3 faster in Alberta than elsewhere?

4 MR. MARK NELSON: Good question. The --
5 the first comment, which I'll get to your actual question
6 -- the first comment would be the geology is -- is
7 different here, obviously, so that -- that causes one (1)
8 difference --

9 MR. ANDRE PLOURDE: Sure.

10 MR. MARK NELSON: -- and that has always
11 been -- always been the difference.

12 MR. ANDRE PLOURDE: Sure.

13 MR. MARK NELSON: Prices have, at least
14 compared to Indonesia, gone up about 20 percent more in
15 Alberta than Indonesia for -- for us -- for Chevron.

16 MR. ANDRE PLOURDE: So the cost --

17 MR. MARK NELSON: The actual cost -- the
18 cost, correct.

19 MR. ANDRE PLOURDE: Okay. Great. Thank
20 you.

21 MR. MARK NELSON: Great. Thank you,
22 very --

23 MR. KEN MCKENZIE: Sorry, one -- one more
24 thing. And this is back on this risk thing. I mean, one
25 of the things that -- that does differentiate the oil

1 sands from several other, in particular, off-shore oil
2 plays, et cetera is that there is one aspect of the risk
3 that's -- that -- that's, in a sense missing, in a sense,
4 and that's exploration risk, right?

5 I mean, for the most part we know where
6 Athabasca Oil Sands are and -- and so there's the dollars
7 involved in actually finding the stuff, right, which are
8 upfront dollars, right, don't have to be spent in the oil
9 sands, in the sense, right?

10 Now, I fully understand that there's
11 significant upfront capital costs in order to actually
12 extract it, relative to other -- other areas, but there
13 is that one component that's missing, right?

14 And so how do you sort of make that trade
15 off when you're -- when you're looking at the risks --

16 MR. MARK NELSON: Yeah. I actually --
17 there -- there's an exploration side to oil sands as
18 well. There's a common misperception that all oil
19 sands --

20 MR. KEN MCKENZIE: Okay. Well, educate
21 me.

22 MR. MARK NELSON: -- are -- are -- no --
23 are created equal. I --

24 MR. KEN MCKENZIE: Right.

25 MR. MARK NELSON: -- I kind of learned --

1 learned the same thing the hard way, I think.

2 MR. KEN MCKENZIE: Yeah.

3 MR. MARK NELSON: And what you can find
4 is, you know, the geology close to the river is different
5 than further away from the river and you'll find places
6 where bitumen is all nicely packed in one (1) place --
7 place and we can -- we can go get it. In other cases
8 it's broken up and there's other --

9 MR. KEN MCKENZIE: Okay.

10 MR. MARK NELSON: -- there's other pieces
11 of geology in -- in the way. And -- and I think all --
12 all oil companies have -- they obviously focussed on the
13 easy targets first, so the -- the more challenging
14 geology is coming.

15 MR. KEN MCKENZIE: So there's --

16 MR. MARK NELSON: There's a -- there's a
17 degree of exploration even in the oil sands work.

18 MR. KEN MCKENZIE: Okay.

19 THE CHAIRPERSON: Thank you very much,
20 Mr. Nelson.

21 MR. MARK NELSON: Thank you

22 THE CHAIRPERSON: We appreciate your
23 presentation and contribution.

24 Ladies and gentlemen, that concludes the
25 registered presentations for this afternoon. We are

1 going to reconvene at 7:30 tonight. At this juncture, we
2 don't have any registered guests but, again, we are going
3 to make ourselves available to get the public
4 contribution.

5 Thanks very much for your attendance today
6 and really appreciate it.

7

8 --- Upon recessing at 3:23 p.m.

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10 (No evening presenters)

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12 --- Upon adjourning at 7:30 p.m.

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15 Certified Correct,

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21 Ashley Guillemin, Ms.

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