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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 - Board Member
- Ken McKenzie - Board Member
- Sam Spanglet - Board Member

HELD AT:

Radisson Calgary Airport Hotel
Calgary, Alberta
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Volume VII

APPEARANCES

1
2 Gil McGowan)Alberta Federation
3)of Labour
4
5 Ed Poth)Pandel Tech Corporation
6
7 Mishka Lysack)Private Citizen
8
9 Len Skowronski)Alberta Social Credit
10)Party
11
12 Larry Negrave)Private Citizen
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14 Nancy Ginzer)Citizens For A
15)Sustainable Okotoks
16
17 Cris Seasons)Devon Canada
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19 Glen Schmidt)Laricina Energy
20
21 Jim Buckee)Talisman Energy
22 Kevin Draider)
23
24 Randy McLeod)BP Canada Energy
25

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APPEARANCES (Con't)

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1 --- Upon convening at 8:56 a.m.:

2

3 THE CHAIRPERSON: Good morning everyone.
4 Welcome back for some of you and welcome to others of our
5 new guests. On behalf of the Royalty Review Panel, thank
6 you for the interest in the Alberta's Royalty and Tax
7 Regimes.

8 Your input is a very important part of our
9 work and we appreciate your time and effort to bring that
10 forward.

11 I'd like to introduce the panel for you.
12 On my far right is Ken McKenzie; next is Evan Chrapko;
13 Judith Dwarkin; and I'm Bill Hunter. And we have Sam
14 Spanglet and Andre Plourde and the lovely young lady at
15 the far end is our time manager that will be working
16 closely with the presenters to keep them on time,
17 Elizabeth.

18 A couple of housekeeping opportunities.
19 Individual presenters will have five (5) minutes for
20 their presentation and that will be followed by an
21 opportunity for the panel to ask questions or
22 clarification questions.

23 Each organization will have ten (10)
24 minutes and again the panel will take liberties of asking
25 specific questions. If you have a submission with you

1 today and you're in the audience and you want to leave it
2 with us, we have a secretariat table at the back right
3 hand corner or the registration desk where you came in.

4 If you haven't brought a submission with
5 you and you'd like to do that or register to make a
6 presentation, our public inputs close on June 22nd. And
7 if you go to our website, albertaroyaltyreview.ca,
8 there's a mechanism to show you how, through a series of
9 different methods, you can get your contribution in to
10 us. It's very important that you do that.

11 A little bit of a WestJet play. I want to
12 draw your attention to the exit doors at the back of the
13 room and there's another set of doors behind the panel.
14 If there's an emergency and we have to evacuate, please
15 familiarize yourself with the nearest exit.

16 While the proceedings are underway, I
17 would ask everyone, please turn off your cell phones and
18 your Blackberries so that we don't have interruption of
19 the presentations. If you have to leave them on, please
20 put them on something less intrusive, like vibrate.

21 These proceedings are being transcribed
22 by our contractor and that allows us to make sure we have
23 detailed information from the exchange, especially the
24 panel's questions but, more importantly, so that we can
25 post the transcripts on our website so that all Albertans

1 can participate in the exchange.

2 I'd be happy to speak with the media at
3 the appropriate break on behalf of the panel but I do ask
4 that media respect the space of the panel and the
5 presenters during the proceedings.

6 And again, on behalf of the panel and all
7 Albertans, thank you for your time and your interest

8 So our first opportunity this morning is
9 to here from Mr. McGowan, the Alberta Federation of
10 Labour. Welcome, sir.

11 MR. GIL MCGOWAN: Thank you. And I'll
12 try not to send people running for the exits.

13 THE CHAIRPERSON: All right.

14

15 PRESENTATION BY ALBERTA FEDERATION OF LABOUR:

16 MR. GIL MCGOWAN: I haven't come here
17 today as -- as an expert in economics or oil industry
18 planning. I don't have a PhD, I don't have an MBA, I'm
19 not a CEO or CFO or even an engineer.

20 Instead I'm here today as an elected
21 leader and a spokesperson for twenty-nine (29) unions in
22 this province representing a hundred and twenty thousand
23 (120,000) working Albertans.

24 As the Alberta Labour Movement's top
25 advocate and, I guess, a politician, I do what other

1 politicians do. I talk to my constituents. I meet with
2 local leaders. I try to get a sense of what our members
3 are really concerned about.

4 And what the thousands of tax paying, vote
5 casting members who I represent are saying is that they
6 don't believe that they're getting the best possible deal
7 on the oil sands Resources that we, as Albertans, own
8 collectively.

9 In particular, Alberta Union Members don't
10 think that our province's now infamous penny on the
11 dollar royalty for the oil sands is either fair or
12 appropriate. My assessment of the mood of union members
13 in this province is not just based on a hunch and it's
14 not just a feeling.

15 It's based on face-to-face meetings and
16 it's based on structured discussions that we've had with
17 elected and accountable leaders within our movement.

18 In the month of March, for example, I
19 toured the province and met directly in town hall
20 meetings with rank and file members for most of our
21 affiliated unions.

22 We met in Edmonton and Calgary, Lethbridge
23 and Medicine Hat, Grande Prairie and Red Deer, even the
24 smaller communities like Hinton. I met with nurses,
25 paramedics, firefighters, municipal workers, forestry

1 workers, refinery workers, the list goes on.

2 But our consultations didn't end there.
3 Just last week more than three hundred (300) delegates
4 from -- about two hundred (200) locals from around the
5 Province met right here Calgary for the AFL's bi-annual
6 convention.

7 We talked about all the things that you
8 would expect to hear at a union convention, wages,
9 working conditions, labour law, health and safety but the
10 one overriding issue that our delegates to our convention
11 kept returning to us the same overriding issue that I've
12 heard repeated over and over again at our town hall
13 meetings, and that's the issue of oil sands policy.

14 Our members are concerned about the pace
15 of oil sands development and the impact that it's having
16 on quality of life, the environment and also on the cost
17 of living.

18 Our members are concerned about the
19 growing number of energy companies in this province who
20 are making plans to ship raw bitumen down the pipeline
21 and out of the province without upgrading it here.

22 And probably, most importantly, for our
23 purposes today, our members are concerned about a royalty
24 regime which they feel is failing the Alberta public.

25 I -- I -- the reason I raise the concerns

1 of our members in detail is because our members are not
2 some radical rump, they're ordinary Albertans and as such
3 I think they're a good barometer of the broader public
4 mood.

5 And as I think you've probably seen in the
6 course of your consultations, when it comes to oil sands
7 royalties, the public mood is not a good one. The public
8 is sceptical, the public is frustrated, the public is
9 worried that we're being, frankly, taken to the cleaners
10 while oil company executives snicker behind closed doors
11 and make comments about what suckers we are.

12 Looking at the evidence from our
13 perspective, it's hard for any well informed lay person
14 to come to any conclusion other than that the oil
15 industry is getting a sweetheart deal on the oil sands.

16 It's a deal that was born in a different
17 time but which has survived unchanged. The 1 percent
18 royalty was put in place ten (10) years ago to help
19 encourage investment in a risky fledgling industry
20 struggling with relatively low oil prices.

21 But the industry is now mature, investment
22 is up 400 percent since 1997 and the price of bitumen has
23 increased by more than 250 percent in the past decade.
24 There may have been a time when this industry was in need
25 of a hand-up but that certainly -- but that time

1 certainly has passed.

2 When -- what was once a system that was
3 arguably in need of -- of a kick-start in terms of
4 investment has now become a system which, frankly, is not
5 returning the best resour -- giving the best return to
6 Albertans.

7 We know labour movement, we think it's
8 perverse, frankly, that the oil sands revenue is
9 projected to fall over the next three (3) years and it's
10 predicted to be the same in 2020 as it was in 2005
11 despite a tripling in production.

12 We think it's perverse that during an
13 unprecedented oil boom in Alberta, our province can't
14 even reach its own modest target of collecting 25 percent
15 of revenues from oil and gas.

16 We think it's perverse that countries like
17 Kazakhstan and Bolivia are getting a bigger piece of
18 their resource pies for their citizens than our
19 government is getting for Albertans.

20 And we think it's perverse that, as the
21 Pembina Institute pointed out yesterday, the current
22 Alberta Royalty Regime gives oil sands developers 53
23 percent of net revenue from projects that are developing
24 when oil and gas companies operating in places like
25 Norway somehow manage to get by with a mere 22 percent

1 share.

2 The bottom line for us is that the current
3 royalty regime has resulted in literally billions of
4 dollars of foregone public revenue. This is revenue that
5 could have and should have been used -- saved for the
6 future generations that revenue that have and should have
7 been used to help diversify our economy.

8 It's revenue that could have and should
9 have been used for our hospitals, our schools, our roads,
10 our municipalities. Of course, the industry says that
11 they're barely getting by. I've seen their presentations
12 and I've read the news coverage.

13 They complain about rising cost of
14 construction, for example, conveniently ignoring the fact
15 that it was the low -- it was, in part, the low royalty
16 rate itself that played a big role in overheating the
17 market in the first place and also ignoring the fact that
18 the lion's share of the cost overruns are actually
19 shouldered by the public as the horizon for higher payout
20 gets pushed further and further off into the future.

21 The industry and their apologists in
22 government also talk about the triple threat.
23 Elimination of Federal tax breaks, the introduction of
24 greenhouse gas controls and -- and the possible changes
25 to Provincial royalties.

1 They argue that based on all their
2 planning and -- that they had based all their planning on
3 the assumption that the royalty rates would remain
4 unchanged.

5 But you know what? They also based their
6 planning on the assumption that oil would be trading at
7 \$30 or \$40 a barrel when it is now trading for much
8 higher than that. That's the nature of the economy.
9 Things change and businesses adapt.

10 In that regard the report released
11 yesterday by the Pembina Institute provides us with a
12 great service. From our perspective, it cuts through the
13 clutter and the rhetoric and it shows in clear terms what
14 I think we've all known intuitively, namely that the oil
15 sands companies are making money hand over fist and that
16 they -- they could continue to make healthy amounts of
17 money even if the public took a much bigger piece of the
18 pie.

19 The sky didn't fall when Peter Lougheed
20 ignored dire industry predictions in the '70's and
21 increased royalty rates and it won't fall today if we do
22 the right thing and reform our approach to royalties.

23 Now when it comes to recommendations, I
24 won't pretend to be something that I'm not. As I said,
25 I'm not an expert, I'm not an expert, I'm not an

1 to start thinking not just like an owner, but also as a
2 negotiator. They need to approach -- approach every new
3 oil sands proposal as an opportunity to bargain the best
4 possible deal for the public. We in the labour movement
5 are used to this kind of thinking and what we see when we
6 look at the oil sands situation now is an opportunity
7 that our government has so far failed to capitalize on.

8 We have a resource that the world
9 wants, we have a -- we're politically stable, we're right
10 next to the biggest market in the world and big oil
11 companies are sitting on massive piles of monies that
12 they -- that they don't have a place to invest in. In
13 short, we have a lot of cards and that's what we call
14 bargaining power. It's our -- time that our government
15 starting using it. I see I'm running out of time, so
16 I'll go right to the last point.

17 Fifth and, finally, I think we should
18 learn a lesson from other oil rich jurisdictions,
19 especially places like Norway, and that lesson is that if
20 the private sector isn't willing to develop our resources
21 in the public interest with reasonable royalties, we
22 shouldn't be afraid to do it ourselves. Royalties are
23 one way to guarantee returns for the public, but
24 ownership is another.

25 In the current political environment, this

1 may seem radical, but it wasn't that long ago that
2 conservative governments right here in this province
3 created enterprises like the Alberta Energy Corporation
4 to guarantee a better deal for Albertans.

5 Taking ownership positions in energy
6 developments is not socialism, given what were -- that
7 we're the owners of the resource it's just good business.
8 It's about taking care of our own interest, it's about
9 taking care of business.

10 In the end, taking a more aggressive
11 approach to collecting resource rents in the oil sands
12 may, indeed, scare away a few marginal investors and it
13 may slow down development somewhat, but given the current
14 pace -- given that the current pace is pushing the limits
15 of our infrastructures, our labour force, and our
16 environment, a slightly so -- slower pace may be just
17 what the doctor had ordered. And if the slower comes
18 with better returns for Albertans then the public
19 interest will really be served.

20 THE CHAIRPERSON: Okay. Thank you, sir.
21 If you will allow us a few questions.

22 MR. GIL MCGOWAN: Sure.

23 THE CHAIRPERSON: Judith...?

24

25 QUESTIONS BY BOARD:

1 MS. JUDITH DWARKIN: Thank you. Thank
2 you for your presentation. My first question is: Can you
3 tell us what proportion roughly of your constituents work
4 in the oil and gas sector?

5 MR. GIL MCGOWAN: Well, we represent
6 workers who -- both the down-steam industries, so in
7 refineries and upgraders --

8 MS. JUDITH DWARKIN: Hmm-hmm.

9 MR. GIL MCGOWAN: -- we have about seven
10 (7) or eight thousand (8,000) members who work in
11 refineries and upgraders and then we have about twenty
12 thousand (20,000) workers in construction, who, the large
13 propor -- the largest proportion of them are actually
14 working up in Fort McMurray on -- on the big mega
15 projects.

16 MS. JUDITH DWARKIN: So about 25
17 percent --

18 MR. GIL MCGOWAN: Yeah.

19 MS. JUDITH DWARKIN: -- roughly.

20 MR. GIL MCGOWAN: But one of the points
21 I'd like to make is that this is an issue of interest not
22 only to our members who are directly employed either in
23 construction or energy, it's also a big concern to all
24 our members as taxpayers, but also to many of our public
25 sector members because all this foregone revenue that I

1 mentioned is money that they feel very strongly could be
2 used to pay for the services that -- that are so, you
3 know, desperately stretched.

4 MS. JUDITH DWARKIN: Mm-hm.

5 MR. GIL MCGOWAN: Not -- not only in boom
6 towns like Fort McMurray, but right across the province.

7 MS. JUDITH DWARKIN: I understand that.
8 My follow up question to that is, I guess, to economists
9 it's always that -- there's always a trade-off, you can't
10 have something without, you know, something else giving
11 way --

12 MR. GIL MCGOWAN: Yeah.

13 MS. JUDITH DWARKIN: -- and you indicate
14 that your members support the notion of the pace of
15 development somehow being slowed down in some fashion.

16 One of the possible trade-offs of that is
17 less job creation, less wage inflation; is that
18 acknowledged as a possible outcome of a slower pace of
19 development?

20 MR. GIL MCGOWAN: It -- it is
21 acknowledged and actually speaking from the perspective
22 our -- of our construction -- our construction workers,
23 for example, one of their concerns is that so much work
24 is being done now building all these projects at once
25 that they're actually missing out on job opportunities

1 which they could have five (5) or ten (10) years down the
2 road.

3 Our -- our guys would act -- would much
4 prefer to proceed with construction at a more reasonable
5 staggered pace and have, you know, fifteen (15) or twenty
6 (20) years of steady employment versus, you know, five
7 (5) or seven (7) years of frantic employment supplemented
8 by temporary foreign workers followed by a bust.

9 So we actually see that, you know, a more
10 -- more staggered approach to development which might be
11 facilitated by a higher royalty rate as something that
12 would be actually in the long-term self-interest of our
13 members.

14 MS. JUDITH DWARKIN: Thank you. And a
15 quick one, you mention the 1 percent gross royalty rate
16 frequently and that it's too low.

17 Are you suggesting to eliminate the gross
18 net structure on the oil sands royalty or that the 1
19 percent needs to be higher and what exactly are you
20 recommending there?

21 MR. GIL MCGOWAN: Well, that's why --
22 like I say, like I'm not an economist; I'm not an expert
23 in those areas. What I -- what I will say is that the
24 public take, at the end of the day, needs to be more
25 substantial than what it is, so, when I look at some of

1 the proposals that were made by the Pembina Institute,
2 for example, yesterday I thought it was interesting that
3 they kept in place the 1 percent royalty in all of their
4 options but, you know, found ways to get a bigger cut for
5 the public --

6 MS. JUDITH DWARKIN: Okay.

7 MR. GIL MCGOWAN: -- you know, once the
8 capital costs have been paid off. That's something that
9 we -- we could probably support.

10 MS. JUDITH DWARKIN: Thank you.

11 THE CHAIRPERSON: Sam...?

12 MR. SAM SPANGLET: Well, it was a very
13 good presentation, Gil. I really --

14 MR. GIL MCGOWAN: Thanks.

15 MR. SAM SPANGLET: -- appreciate it and I
16 want to thank your membership for working so hard in very
17 tough conditions at times so --

18 MR. GIL MCGOWAN: Yeah.

19 MR. SAM SPANGLET: -- thank you for that.
20 I -- I just want to -- one (1) question to clarify, just
21 clarification.

22 MR. GIL MCGOWAN: Sure.

23 MR. SAM SPANGLET: I think you mentioned
24 a number 70 to 80 percent --

25 MR. GIL MCGOWAN: Yeah.

1 MR. SAM SPANGLET: -- government take --

2 MR. GIL MCGOWAN: Yeah.

3 MR. SAM SPANGLET: -- more or less. You
4 know that today the government takes about 40 some
5 percent I think -- 40 -- I'm not sure.

6 MR. GIL MCGOWAN: It depends on who you
7 talk to. I think the Pembina Institute's at 53 --

8 MR. SAM SPANGLET: No, government take I
9 mean.

10 MR. GIL MCGOWAN: Oh, yeah.

11 MR. SAM SPANGLET: The government is
12 about 40 -- 43 percent --

13 MR. GIL MCGOWAN: Yeah.

14 MR. SAM SPANGLET: -- so you suggest
15 almost to double it?

16 MR. GIL MCGOWAN: Mm-hm.

17 MR. SAM SPANGLET: Okay.

18 MR. GIL MCGOWAN: Well, I -- I think
19 we're in -- we're in the basement right now and I think
20 one (1) of -- one (1) of our goals should be to bring our
21 royalty regime more in line with international averages.

22 MR. SAM SPANGLET: Okay. that's it. I -
23 - I just want to clarify it.

24 MR. GIL MCGOWAN: Thanks.

25 MR. SAM SPANGLET: I'm not sure I...

1 THE CHAIRPERSON: Evan..?

2 MR. EVAN CHRAPKO: Also just a point of
3 clarification. You're -- you're suggesting that getting
4 more in line with international means more involvement
5 directly as government entities --

6 MR. GIL MCGOWAN: Well, --

7 MR. EVAN CHRAPKO: -- Petro-Canada,
8 Alberta Energy?

9 MR. GIL MCGOWAN: Yeah, yeah. All I'm
10 saying is that's one (1) of the options that should be
11 considered. It shouldn't be ruled out of hand.

12 I mean, if we look at other oil-rich
13 jurisdictions it seems that the preferred approach to
14 development -- developing oil resources is through public
15 -- some form of public ownership or -- or equity
16 participation. I know that's -- it's been an anathema in
17 Alberta for the last fifteen (15) years but I think that
18 we -- we can approach this without abandoning our, you
19 know, attachment to the market.

20 We -- it's just as owners we would become
21 participants in the market as opposed to, you know, --
22 you know, nationalizing the -- I'm not -- I'm not
23 proposing that we nationalize the oil patch. I'm just
24 saying that we should start behaving as owners and owners
25 will often demand equity positions in -- in the -- in the

1 enterprises that they're involved in.

2 MR. EVAN CHRAPKO: Thank you.

3 THE CHAIRPERSON: Andre...?

4 MR. ANDRE PLOURDE: Thank -- thank you.

5 Thanks for your presentation.

6 Just to pick up on something that was
7 asked earlier, you talked about the royalty system in
8 terms of the share takes but you didn't say anything
9 about the tax system.

10 MR. GIL MCGOWAN: Mm-Hm.

11 MR. ANDRE PLOURDE: Any recommendations
12 on that front as well? Do you see them as different
13 things for example or...?

14 MR. GIL MCGOWAN: Yeah, I see -- I see
15 them as entirely different things and I think that it's
16 important that -- that both the Government and your panel
17 make the distinction for the public because I think
18 there's -- there's a lot confusion there.

19 From my perspective, the royalty is the --
20 the rent we charge for access to the resource that we own
21 collectively.

22 MR. ANDRE PLOURDE: Right.

23 MR. GIL MCGOWAN: Tax is something that
24 comes after the fact on the profits that are made, right?
25 These are two (2) entirely different things and, you

1 know, for, you know, people in the energy industry to
2 lump in the taxes is -- is confusing the situation,
3 right? I mean we -- the point is that when we're selling
4 resources we should -- we should be talking about getting
5 the best possible return and that's the royalties, so...

6 MR. ANDRE PLOURDE: Okay. Thanks. One
7 (1) more thing, please, if I may?

8 One (1) thing you didn't talk a lot about
9 is the environmental consequences or the environmental
10 aspects of oil sands development.

11 Is that something you -- you think we
12 should take into consideration in designing a royalty
13 system?

14 MR. GIL MCGOWAN: Well, the short answer
15 there is that, like, from our perspective in the labour
16 movement the environment implications of development are
17 paramount and I think that as -- you know, as the owners
18 of this resource we actually have a responsibility to
19 make sure that it is developed in a way that's as -- as
20 environmentally friendly as possible.

21 I think it's a challenge but I -- you
22 know, so for us, you know, developing this resource
23 without, you know, with -- with as few emissions as
24 possible, I mean that's the goal and if we can use -- if
25 we can somehow use the royalty system to promote more

1 responsible -- the responsible development I
2 would encourage that.

3 I -- referring back to the Pembina
4 Institute report they talked about differential royalties
5 on -- aimed at reducing greenhouse emissions. To tell
6 you the truth, I haven't quite gotten my head around
7 exactly what they're proposing but I -- I like the -- the
8 gist of it.

9 MR. ANDRE PLOURDE: Thank you. Ken...?

10 MR. KEN MCKENZIE: Yeah, just really
11 quickly. Taking a slightly different approach here, what
12 are your thoughts on various, sort of, other issues
13 associated with -- with the accelerated pace of
14 development? I'm -- I'm talking here about labour
15 shortages, --

16 MR. GIL MCGOWAN: Mm-Hm.

17 MR. ANDRE PLOURDE: -- migrant workers,
18 out-of-province workers --

19 MR. GIL MCGOWAN: Yeah.

20 MR. ANDRE PLOURDE: -- labour standards,
21 working conditions.

22 MR. GIL MCGOWAN: Yeah.

23 MR. ANDRE PLOURDE: Are your members
24 talking about those sorts of issues in connection with
25 the pace of development? And -- and I mean this

1 independently of some of the other stuff you've been
2 talking about, the fair share stuff --

3 MR. GIL MCGOWAN: Right.

4 MR. ANDRE PLOURDE: -- and -- and, you
5 know, higher cost of living, et cetera, but I'm talking
6 about, you know, sort of on-the-job sort of stuff that
7 may be connected with the -- with the increased level of
8 activity.

9 MR. GIL MCGOWAN: Yeah. Actually I think
10 that many of the issues that are on the top of the public
11 agenda in Alberta right now are all, in one (1) way or
12 another, related back to the whole issue of, you know,
13 oil sands development and oil sands policy.

14 So for example, you mentioned the issue of
15 temporary foreign workers. You know, that -- that is
16 something that our members are talking about and we're
17 concerned about. We're concerned about it, you know,
18 from the perspective that the -- these people are being
19 brought in to, you know, to -- take jobs, which, if we
20 developed at a more reasonable pace might be available to
21 our members in the future.

22 But we're also concerned that we're
23 bringing in an unprecedented number of temporary foreign
24 workers with very few rules and regulations to protect
25 them.

1 We're, sort of, essentially creating this
2 vast and growing underclass of exploitable workers, which
3 I don't think is the Canadian way, I mean, the Canadian
4 way has always been to bring immigrants in as citizens,
5 let them become contributing parts of our community
6 rather than treating them like, sort of, disposable post-
7 it notes.

8 But, you know, just -- in the general
9 sense to answer your question I think the big -- the
10 elephant in the room is pace of development, right?

11 MR. ANDRE PLOURDE: Mm-Hm.

12 MR. GIL MCGOWAN: I -- there was a --

13 MR. ANDRE PLOURDE: Mm-Hm.

14 MR. GIL MCGOWAN: -- reporter from the
15 Globe & Mail who made a very useful analogy. He said
16 what's happening is -- he called it the "Three (3)
17 Stooges Problem". He says, you know, -- you know the
18 Three Stooges movie -- movies where the -- the Three
19 Stooges try to get through a door at the same time and
20 they all get stuck? That's what's happening in the oil
21 patch.

22 You've got -- you know, we've -- we've got
23 literally a couple of dozen projects -- mega-projects --
24 on the go at the same time. Everyone's trying to build
25 at the same time. They're using the same limited labour

1 force. They're trying to -- the same building materials.
2 They're driving up costs. They're putting pressure on
3 infrastructure and, you know, I mean this is the -- this
4 is the root of our problem with our tight labour market,
5 it's the -- it's the root of the problem with temporary
6 foreign workers. It's the root of the problem with our
7 problems with infrastructure.

8 To tell you the truth, you know, this
9 government, hopefully with recommendations from this
10 panel, has to get some handle on the pace of development.
11 The -- the royalty regime might be a tool to do that. I
12 don't think it's enough. I think that there actually has
13 to be an actual plan. There has to be some regulation.
14 There has to be a new approach to leases but I -- I see,
15 you know, a more aggressive approach to royalties as --
16 as part of the solution.

17 THE CHAIRPERSON: Thank you, Mr. McGowan.
18 We really appreciate your contribution and I echo Sam's
19 sentiments. Our hats off to all those Albertans that are
20 building and maintaining our assets and our opportunities
21 going forward, so, well done.

22 MR. GIL MCGOWAN: Okay.

23 THE CHAIRPERSON: Thank you very much.

24

25 (BRIEF PAUSE)

1 THE CHAIRPERSON: Next, ladies and
2 gentlemen, we have an opportunity to hear from Mr. Poth
3 with Pandel Tech Corporation. Welcome, sir.

4

5 PRESENTATION BY PANDEL TECH CORPORATION:

6 MR. ED POTH: Hello. My name is Ed Poth.
7 I'm a professional engineer in Alberta. I've been
8 working in the Alberta oil industry for thirty (30) years
9 and I specialize in oil and gas economics and corporate
10 acquisitions. Next slide.

11 I've heard it said that the Alberta
12 royalty regime is the third most complex in the world and
13 I -- I don't know what standard that's measured by but
14 this document is the Alberta Petroleum Natural Gas
15 Royalty Guidelines for Alberta. Ninety-five percent of
16 this document is for oil -- or for gas royalties and 5
17 percent of it is for oil royalties.

18 The majority of my talk will address
19 conventional oil and gas production. In the past when
20 there have been royalty changes, after the fact, it seems
21 that people don't realize that this information is not
22 just used to calculate the royalties payable, but gets
23 put into oil and gas economic software programs that oil
24 and gas companies then used to predict the -- the
25 economic viability of going ahead with a project.

1 Oil and gas economics are used to
2 establish budgets and cash flow, estimate the asset value
3 of a company and used to determine the value and
4 profitability of future development projects. Next
5 slide.

6 These next series of slides are quite
7 complex. They are internal -- our internal Corporate
8 documents to the show the programmers the workflow that
9 is required to come up with economics. The first two (2)
10 series are for the corporate budget system. The little
11 red star shows where in the process the oil and gas
12 economics are run and the need for calculating the
13 royalties themselves. Page 2, again, you can see they're
14 very complex. Next please.

15 This is the -- the corporate reserves.
16 Com -- public companies have to have an accounting of
17 their assets, they go an independent auditor, they again
18 need to have a computer program that can calculate the
19 royalties.

20 Next. And, again, page 2 of that one.
21 Next. This is just a single workflow project to give you
22 a flavour for how the royalties get incorporated in the
23 economics models. Basically somebody comes up with an
24 idea, that idea gets translated into an economic model,
25 that economic model has to be able to predict the

1 royalties that are payable and then when you come out
2 with the -- the program, it will give you corporate
3 hurdle rates, economics, netbacks and the company itself
4 decides whether or not it wants to go ahead with that
5 project.

6 Any changes in the royalties, I would
7 suggest should be easy to implement and understand. The
8 last time there was a major change to the royalty, the
9 industry did not get the -- the details and the backup
10 till a year after the program was instituted and so
11 anytime there is a gap between understanding what the
12 changes are and the details of the changes, budgets are
13 reduced to offset uncertainty.

14 An example of the -- the last royalty
15 change, in-stream composition was a -- a royalty change
16 implemented by the Alberta Government to try capture the
17 components to natural gas and in that -- that royalty
18 calculation the royalty trigger point is the composition
19 of the gas, at a battery or facility and that information
20 is not public.

21 So if you are going to be putting gas
22 into a facility, you're not going to know in advance what
23 the impact of the royalties are.

24 So the example of in-stream composition is
25 an example of a royalty calculation that is not

1 predictable. The impact is small because it only affects
2 a small sector of the gas. Next slide.

3 This next series of four (4) slides is
4 from the EUB, their reserve statistics. They have stated
5 in their documentation that the last major find in
6 Alberta was in 1977. This slide is for oil.

7 Next slide. This slide is for gas and it
8 more or less shows the same thing, so there -- for
9 convention oil and gas there has not been a major find in
10 Alberta since 1977. Next slide.

11 This is, again, from the same
12 documentation, from EUB reserve statistics, that it says,
13 more or less the -- the producible conventional oil and
14 gas, this being the oil slide, will be more or less
15 produced out by 2035 and on the gas side around 2040.
16 And those are not absolutes.

17 The -- the economics of the market will
18 change, you'll add reserves, remove reserves, but it say
19 we're looking at the end game for conventional oil and
20 gas in Alberta. This -- I -- I've seen this
21 documentation even in your -- your -- the information
22 presented out at the desk.

23 This is downloaded from the CAPP website,
24 it show the different sectors year over year of what's
25 providing resource revenue to Albertans and the only

1 significant change is in the oil sands, that in 2003 is
2 was almost \$200 million and in 2006 it was estimated to
3 be over \$3.2 billion, which in 2003 represented 2 percent
4 of the resources from the al -- from the royalty regime
5 and now represents 20 percent and the future growth of
6 the province, I can see, will be in -- in the tar sands.
7 Next slide.

8 A comment had been made to me by one (1)
9 of the vice-presidents of one (1) of the major oil
10 companies that the profitability of oil and gas in 2006
11 will be less than the profitability in 2005. And we have
12 a tendency to live on hearsay. I went to the CEDAR
13 website, downloaded a series of annual reports that had
14 their year-ends at the -- the actual year-end.

15 I just grabbed them until I filled up
16 seven (7) of them, so when they're random, they're
17 completely random. And more or less, if you look at the
18 2005 over 2006, the attention I would like to make is to
19 the operating costs. The operating costs have increased
20 12 percent and the overall profitability has come down,
21 that the netback coming to each company is -- is reduced.

22 This is an economic run, actually using
23 the information from the previous slide and, more than
24 anything, it was ten dollars and 32 cents (\$10.32) BOE
25 netback for the economic run and I've produced it out

1 until, at eight (8) barrels a day, that well becomes
2 uneconomical to produce. There's no magic, I just
3 divided the operating costs in half and then ran it out
4 and then becomes uneconomical at four (4) barrels a day.

5 So it's just the impact of any cost
6 associated with producing a well. The higher the cost,
7 the less reserve you'll be able to produce.

8 This -- this is just a general slide on
9 the production distribution by company. This information
10 comes from production rates in Alberta for fourth quarter
11 of 2005 and basically it shows that companies producing
12 over 100 thousand BOEs a day represent less than 1
13 percent of the companies, but account for 54 percent of
14 the production of oil and gas in Alberta.

15 And over 50 percent of the companies in
16 Alberta account for less than half a percent of the total
17 production in Alberta. Small producers return the
18 majority of their profits back into development and
19 exploration.

20 From too -- recent comments in the media,
21 Alberta oil and gas sector economy is cooling, an
22 increase in costs without a corresponding increase in
23 price will reduce the potential for recoverable reserves.
24 The ARTC removal has the largest negative impact on the
25 small producers. Cancellation of certain royalty

1 holidays has removed project safety nets on expensive
2 high risk projects.

3 And I can personally attest to phone calls
4 received from people inquiring about the deep gas royalty
5 holiday and the cancellation of it, that the projects
6 were cancelled just simply by talking to somebody on the
7 phone; oh, it's not there, we won't go forward and do the
8 project.

9 Just as a rough rule of thumb, 350 BOEs a
10 day is needed for a breakeven point for a three (3)
11 person company; office overhead and field expenses. The
12 negative impact of royalty increases will affect the
13 smaller producers the greatest.

14 Large multinational companies cannot grow
15 with small development projects. Large development
16 projects bring infrastructure to a new area. Small
17 projects can't support the costs of new infrastructures.
18 Produce it now or strand the reserves. The profitability
19 of a single-producing well may not reflect the total
20 capital risk exploration costs to obtain that production.
21 Thank you.

22 THE CHAIRPERSON: Thank you, Mr. Poth. I
23 can't help myself, but my humour wants me to say
24 something and that is, I've been dreading somebody like
25 you coming forward because I can feel the economists on

1 this panel starting to vibrate with enthusiasm, so thanks
2 for that.

3 Ken...?

4

5 QUESTIONS BY BOARD:

6 MR. KEN MCKENZIE: Yeah, you talked about
7 costs and you're -- you're -- you're focussing, as you
8 said, on conventional oil and gas here, so as you know,
9 we don't explicitly recognize costs in the royalty system
10 for conventional oil and gas, we only do so indirectly by
11 way of the production sensitive royalty rate.

12 And also, the fact that the select price,
13 for example, is increased every year by an inflation
14 factor, which made there, no relationship to their actual
15 cost inflation for the -- for wells.

16 So I'm wondering if you envision us
17 changing that -- that -- maybe not the structure in terms
18 of the basic approach, but -- but -- but some of the
19 parameters, if you will, that are used to define
20 royalties for that sector in recognition of the higher
21 costs, is that the sort of thing you have in mind?

22 MR. ED POTH: No, actually --

23 MR. KEN MCKENZIE: Oh, okay.

24 MR. ED POTH: -- I guess more than
25 anything is, the oil and gas industry, and again, I'm

1 say, we realize there's higher operating costs and we
2 will compensate accordingly.

3 MR. KEN MCKENZIE: Okay. I'm sure that's
4 fine, thank you.

5 THE CHAIRPERSON: Evan...?

6 MR. EVAN CHRAPKO: You made a statement
7 on the second to last slide, produce now or strand the
8 reserves. In earlier slides -- I don't know what numbers
9 these are -- looking at the established reserves, you
10 acknowledged that that moves based on what becomes more
11 or less economical.

12 Help me understand why or what you mean by
13 the stranded reserves, if these are coming on or off the
14 table according to world price.

15 MR. ED POTH: There -- there's -- sort of
16 another breakdown in here is between oil and gas,
17 particularly in gas. I think 70 percent of Alberta's
18 production now is in gas and for gas you need a major
19 gathering system, compression plants, facilities to
20 handle that. If you go to a new area, there has to be
21 reason to go to that area. You can't have people come to
22 an area with small reserves, you need to have a major
23 project to bring new infrastructure to an area.

24 So the comment was made when I was looking
25 at the royalty review information that had been done

1 before; people were saying to cut it back, to slow it
2 down, and if you don't do it now and the infrastructure
3 disappears, it won't come back to pick up the stragglers,
4 so then those reserves get stranded.

5 MR. EVAN CHRAPKO: Or get built later.

6 MR. ED POTH: They -- they won't get
7 built later. There is not enough remaining oil and gas
8 in the remote areas to bring new infrastructure. It
9 won't be built later. It -- right now the smaller
10 reserves are being produced through existing assets.

11 I think there was a comment made in one
12 (1) of the previous docu -- presentations on when the
13 last major facilities were built in Alberta. We're not
14 building new oil and gas compression facilities.

15 THE CHAIRPERSON: Judith...?

16 MS. JUDITH DWARKIN; Just following on
17 that question, are -- is -- are you suggesting then
18 that's a good thing because they're not economic to build
19 if they're disparate small pools or it's a bad thing?

20 MR. ED POTH: It's a good thing to
21 produce it now.

22 MS. JUDITH DWARKIN: Oh.

23 MR. ED POTH: Sorry, did I misunderstand
24 your question?

25 MS. JUDITH DWARKIN: Okay, I'm not

1 understanding your distinction between it being produced
2 and processed through plants that are, basically, legacy
3 plants versus --

4 MR. ED POTH: Oh, no, I'm saying that's a
5 good thing. I -- I'm not advocating building new plants
6 or infrastructure for conventional oil and gas.

7 MS. JUDITH DWARKIN: Okay, one (1) other
8 question. You made a point of indi -- seemed to be
9 indicating, anyway, that the royalty system is currently
10 constituted as a very complicated and it's like 5 inches
11 worth of regulations.

12 MR. ED POTH: Yes.

13 MS. JUDITH DWARKIN: Yet in addressing
14 economic or commercial issues related to the marginal
15 resource, you also seem to be suggesting we introduce
16 some more complications, so.

17 MR. ED POTH: Right now some of the
18 royalty programs have been cut.

19 MS. JUDITH DWARKIN: Mm-hm.

20 MR. ED POTH: If they had been left in
21 place, it would have been fine the way it was.

22 MS. JUDITH DWARKIN: Albeit complicated.

23 MR. ED POTH: Albeit complicated, because
24 as it stands right now, this information has been
25 incorporated in the existing computer programs.

1 MS. JUDITH DWARKIN: I see

2 MR. ED POTH: However, a change to that
3 system will mean a whole reworking --

4 MS. JUDITH DWARKIN: Work up, okay.

5 MR. ED POTH: -- both on the government
6 side and on the private sector side.

7 THE CHAIRPERSON: Sam...?

8 MR. SAM SPANGLET: Thanks. Educational.
9 One (1) question, what do you recommend?

10 MR. ED POTH: I actually recommend
11 leaving -- for conventional oil and gas, leaving it the
12 same. I don't have all the slides from the EUB
13 documentation, but they do say the future of Alberta is
14 in heavy oil bitumen; that is at the direction we're
15 going. We are at the endgame with conventional oil and
16 gas. And when I say "endgame" it'll -- it'll be our
17 careers and even half of the -- the next group coming in.

18 MR. SAM SPANGLET: So you say -- you
19 recommend don't change?

20 MR. ED POTH: Don't change for
21 conventional oil and gas.

22 MR. SAM SPANGLET: For conventional --
23 you have any thoughts about oil sands?

24 MR. ED POTH: I haven't --

25 MR. SAM SPANGLET: You haven't thought

1 about it?

2 MR. ED POTH: -- researched it in depth
3 to -- to make an intelligent comment.

4 MR. SAM SPANGLER: Thank you.

5 THE CHAIRPERSON: Andre...?

6 MR. ANDRE PLOURDE: Great. Thank you
7 very much. Thanks for your presentation and thanks for
8 the material you circulated ahead of time.

9 So I -- you have a slide called "Change in
10 Profitability" and I want to understand a bit more what -
11 - what's in there.

12 MR. ED POTH: Okay.

13 MR. ANDRE PLOURDE: If I do the
14 calculation quickly, you show that it -- comparing 2005
15 and 2006 -- yeah, that would be helpful, if we go back to
16 the presentation.

17

18 (BRIEF PAUSE)

19

20 MR. ANDRE PLOURDE: There, okay. So, if
21 you look at this kind of thing. This is barrel of oil
22 equivalent, because I'm assuming that's --

23 MR. ED POTH: Right.

24 MR. ANDRE PLOURDE: -- just to point out,
25 general and administrative actually goes down, if I

1 understand this right --

2 MR. ED POTH: Yes --

3 MR. ANDRE PLOURDE: -- or were the
4 numbers transposed? It goes down because --

5 MR. ED POTH: No. They -- they didn't go
6 down, yeah.

7 MR. ANDRE PLOURDE: It suggests an
8 increase at the other end -- it's okay?

9 MR. ED POTH: Right. And so what that --

10 MR. ANDRE PLOURDE: We're okay?

11 MR. ED POTH: Yeah.

12 MR. ANDRE PLOURDE: Okay. Now, if I do
13 the calculation of operating costs in general
14 administrative, by the time I net this out, between 2005
15 and 2006 these number suggest that there's been about a
16 one dollar (\$1) increase per barrel of oil equivalent in
17 the costs --

18 MR. ED POTH: -- costs, correct.

19 MR. ANDRE PLOURDE: -- per MCF of natural
20 gas, it's about sixteen (16) cents, would that about
21 right?

22 MR. ED POTH: Ten (10) to one (1), yeah.

23 MR. ANDRE PLOURDE: Okay, so roughly ten
24 (10) to one (1). So you say it would be more like ten
25 (10) cents in --

1 MR. ED POTH: Ten (10) to one (1) is what
2 we use to produce --

3 MR. ANDRE PLOURDE: -- MCF increase in
4 costs between 2005 and 2006 --

5 MR. ED POTH: Right. Correct.

6 MR. ANDRE PLOURDE: -- out of a cost base
7 of roughly fourteen dollars (\$14) per barrel of oil
8 equivalent or one-forty (140).

9 MR. ED POTH: Yes.

10 MR. ANDRE PLOURDE: Okay, just so we're
11 clear on that sort of thing.

12 MR. ED POTH: Yeah.

13 MR. ANDRE PLOURDE: The last point that I
14 -- on your last two (2) slides I kind of pick up on -- on
15 a point that was made earlier and me -- help me
16 understand this corr -- correct what I'm -- I'm going to
17 say.

18 In some sense, if the costs of recovering
19 the oil are, in fact, greater than the revenue that you
20 generate from the activity, isn't the right decision just
21 to leave it in the ground?

22 MR. ED POTH: Yes, yes, absolutely.

23 MR. ANDRE PLOURDE: So now ex -- can you
24 then explain to me why this is not the right anser to
25 your question, what am I missing?

1 MR. ED POTH: Well, when you leave it in
2 the ground it stays in the ground.

3 MR. ANDRE PLOURDE: But it's not, at this
4 stage -- it won't generate enough revenue to cover the
5 costs of getting out of the ground.

6 MR. ED POTH: Right. And -- and that
7 does happen, as well as become an economic, they are shut
8 in and sometimes there is changes to the pricing
9 structure, that people go back and pick it up, but more
10 often than not, the -- what we call, stripper operations,
11 which are at the low end of the production scheme,
12 reserves get abandoned.

13 MR. EVAN CHRAPKO: Lead us back to my --
14 my question -- sorry Andre --

15 MR. ANDRE PLOURDE: No, go ahead.

16 MR. EVAN CHRAPKO: -- produce it now or -
17 - or shut it in forever is not necessarily -- it doesn't
18 seem logical if prices are changing.

19 MR. ED POTH: There -- there is always an
20 associated start-up cost.

21 MR. EVAN CHRAPKO: Sure.

22 MR. ED POTH: There is not a case of, if
23 you have a well that, let's say, is five (5) barrels a
24 day, it becomes uneconomic, the company decides to shut
25 it in, removes the equipment from the well and then they

1 leave it shut it and oil increases 20 percent, that is
2 not --

3 MR. EVAN CHRAPKO: It happens all the
4 time.

5 MR. ED POTH: -- and happens all the
6 time, it does not mean that you will go back to that
7 operation and start producing that well again. And it is
8 eas --

9 MR. EVAN CHRAPKO: Or you could.

10 MR. ED POTH: You could, but you now have
11 the --

12 MR. EVAN CHRAPKO: If the price changes
13 more.

14 MR. ED POTH: -- the -- the capital cost
15 of putting on new -- new equipment on the well, so you
16 would need a significantly larger increase in costs to
17 come back. On the -- that statement is only for oil
18 side.

19 On the gas side, it even becomes worse.
20 If you shut in a well and a pipeline gets decommissioned,
21 you're not going back to that well. You're never going
22 back to that well.

23 THE CHAIRPERSON: Thank you, Mr. Poth.
24 We appreciate your contribution. And again, I'll
25 personally thank you for stimulating my panel, it's

1 always fun first thing in the morning.

2

3

(BRIEF PAUSE)

4

5

THE CHAIRPERSON: Next we're going to hear from an Albertan. Mr. Lysack...? Welcome, sir.

6

7 MR. MISHKA LYSACK: Thank you. And I wonder if I could ask of the timekeeper, could you give me a two (2) minute warning because I only have five (5) minutes and I'm going to race through my proposal because you have a written copy of it.

8

9

10

11

12

THE CHAIRPERSON: It will be the yellow card.

13

14

15

PRESENTATION BY MR. MISHKA LYSACK:

16

17

18

19

MR. MISHKA LYSACK: Okay, the yellow card, okay. Yeah, you might -- if I'm not looking, you might mention it to me. Don't -- don't feel badly about interrupting me.

20

21

22

23

24

First, I would like to thank the staff of the Alberta Royalty Review for giving me an opportunity to present my views. I speak as a citizen of Calgary and Alberta, but also the earth, which is after all, our only home.

25

I'm not an economist or a petroleum

1 producer, but I do teach clinical practice at the
2 University of Calgary and one (1) of the primary areas in
3 which I research is the relationship between personal and
4 societal well-being in the environment.

5 My position simply put is this: It is a
6 serious mistake to leave this arrangement as it is or
7 only make minor changes. Albertans, both present and
8 future generations, are the owners and the stewards of
9 the oil sands. We are also the guardians of the health
10 of our communities and society in which we live and the
11 protectors of the well-being of the environment upon
12 which we depend for our survival.

13 The existing oil -- royalty regime has all
14 but ignored any sense of responsibilities in these areas
15 and it is nothing short of a mountain of rampant growth,
16 and open sky of nonexistent planning and an ocean of
17 squandered and missed opportunities. It does not include
18 a land-use plan, a substantial environmental assessment
19 or a chance for ongoing input from citizens.

20 It excludes social and environmental long-
21 term economic perspectives and has fuelled an unbalanced
22 form of economic expansion. As an economy on steroids,
23 the infrastructure, social communities and economy of
24 Alberta has been severely stressed resulting in a growing
25 social deficit and disregard for the best interests of

1 Albertans.

2 With the majority of Albertans, Canadians
3 are experiencing deep concern about global warming and
4 wanting hard caps on carbon emissions. The oil sands are
5 now the single greatest emitter of CO2 in the country,
6 expected in four (4) years to exceed 80 million tons of
7 CO2; more than all of the cars in Canada; the drawing of
8 huge amounts of water, a shrinking resource, the creation
9 of toxic tailing lake so large they are visible from
10 space, the fact that hundreds of hectares are drilling and
11 strip-mining in the boreal forests, the lungs of the
12 earth.

13 Albertans have a growing sense of urgency
14 about addressing these issues seriously with action. And
15 a total of 150,000 square kilometres could be leased for
16 extraction and reduced to nothing more than an industrial
17 desert, an area the size of Florida. It is when we
18 compare the -- Alberta with other jurisdictions that the
19 mis-opportunities become clear.

20 In 1996 there was almost \$14 billion
21 dollars in the Alberta Heritage Fund, while Norway's fund
22 was smaller, at 11 billion, and Alaska had about 26
23 billion. By 2002, Alberta's fund had actually dropped to
24 12 billion -- billion, while Alaska had expanded to 35 or 36
25 billion and Norway's fund had leapt to an astonishing 101

1 billion.

2 The imagination staggers when one (1)
3 considers what could have been possible in the period
4 from the permanent depletion of the oil sands, but
5 responsible and planned development did not take place
6 and it is an incredible missed opportunity.

7 How does the existing oils -- royalty
8 regime need to be changed? And I'm going to highlight a
9 few of the eight (8) items, I won't -- I don't have time
10 to end -- cover them all.

11 First, there needs to be a balance between
12 social and environmental long-term economic goals and
13 values that prioritizes the common good of Alberta.

14 There needs to be more -- more --
15 moratorium on the granting of future development oil
16 sands until the process is reshaped and built on this new
17 objective of balance of social, environmental and
18 economic objectives. And the moratorium should only be
19 lifted after the completion of a land-use plan so that
20 writs -- rights issuance is guided by these long term
21 visions.

22 An environmental assessment that examines
23 both the present and accumulative impact of extraction
24 should be completed and these objectives should be used
25 as a basis for evaluating oil sands rights as to whether

1 they are consistent with these objectives or whether they
2 undermine the management of this capital resource.

3 And lastly, Number 8 in my
4 recommendations, according to a poll of Albertans in
5 Alberta of 2006, 92 percent of Albertans support the idea
6 that a portion of revenue from the oil sands should be
7 diverted to fund and develop them ever -- as renewable
8 energy sources and the future of investing in these
9 sources need to be integrated in the present ten (10)
10 year regime.

11 Lastly and to conclude, the true costs of
12 oil extraction have not really been factored in; in fact
13 they mask the real costs. Our economy is made possible
14 by the fact that we rely on the earth's productivity and
15 to damage the earth's productivity, it's capacity, is to
16 base the -- is to ignore the basic rule of economics:
17 Don't spend or exhaust all your capital including your
18 natural capital if you want to avoid bankruptcy.

19 Without intending to be negative in this
20 way the present policy encourages social and -- and
21 environmental degradation but we're still responsible for
22 those effects. Forests, aquifers, watersheds, they all
23 have immeasurable values and perform countless services
24 in purifying our water and cleaning our air but they
25 never figure into the royalty regime or into economic

1 forecasts.

2 THE CHAIRPERSON: Mr. Lysack, have you
3 got two (2) sentences that could close your presentation
4 for us?

5 MR. MISHKA LYSACK: Okay. Everything in
6 this room, the water, the plastic, the light, comes from
7 the environment which is our fundamental capital which
8 makes our lives possible.

9 So finally, the issues here are not
10 primarily an economic issue but a moral and ethical issue
11 where we're accountable to our children and
12 grandchildren.

13 And I would like to have the conversation
14 not that I knew what we were doing and we didn't stop,
15 but rather that we knew what were doing and that we cared
16 deeply enough to make difficult choices which showed our
17 wisdom and our compassion. Thank you for your time.

18 THE CHAIRPERSON: Thank you, sir. If
19 you'll allow us a few questions?

20 MR. MISHKA LYSACK: Please.

21 THE CHAIRPERSON: Andre...?
22

23 QUESTIONS BY BOARD:

24 MR. ANDRE PLOURDE: Thank you very much
25 for your presentation. I haven't gone through your

1 material but I will before the thing -- before we
2 proceed.

3 It's not very clear in my mind how you
4 would propose or recommend that we think about this from
5 either royalty or -- or corporate income tax pers -- or a
6 tax perspective.

7 So do you have any suggestions as to how
8 we -- we -- you see this being incorporated in the
9 royalty system regime or the tax system or do you think
10 that other mechanisms would be better to deal with the
11 issues that you've raised?

12 MR. MISHKA LYSACK: I can answer that in
13 two (2) ways. I think the present royalty and tax system
14 both embeds certain values, certain assumptions, and it
15 makes -- and to focus on the environment costs, but there
16 are also social costs and social deficits -- it assumes
17 that those are simply externalities, simply components
18 that could be largely ignored. It assumes that economic
19 system of which the oil sands is kind of a small subset
20 is a closed system.

21 But it's really a subsystem of a larger
22 economy upon which the environment is really the
23 determining factor. And the environment is finite. It's
24 a closed material system. And -- and it has, therefore,
25 certain guidelines embedded in its very constitution

1 which suggest how we should restructure, rethink, and re-
2 vision, I think is really what we're talking about -- re-
3 vision our sense of how to do -- what -- what does it
4 mean to have sustainable economic growth?

5 So I -- I can't answer specifics. As I
6 said I'm not an economist but I -- I've suggested eight
7 (8) different areas to certainly consider, and all of
8 which I think focus on -- on including both the social
9 and environmental costs not having them disregarded as
10 externalities but included as a larger process.

11 Let me give you an example. This might
12 help to answer the question more -- more carefully. If
13 we simply extract oil but have no concern about the
14 destruction, say, of water -- and I know that water
15 according to all polls is a -- is a growing concern of
16 Albertans and preserving the water, especially with
17 climate change where -- where we are the stewards of the
18 largest amount of fresh water in the world and there's
19 going to be a growing crisis -- there already is a crisis
20 of fresh water in the world -- then does it make true
21 economic sense for us to engage in an economic or
22 industrial activity that diminishes that natural capital?

23 And what we've been doing is instead of --
24 instead of protecting the natural capital which is the
25 environment -- the forests, our water, our air -- and

1 spending the interest we are exhausting -- and we know
2 this from studies -- we are now living a lifestyle that
3 exhausts not only the interest but is exhausting our
4 capital. That's very unwise economics.

5 So I think there needs to be a fundamental
6 shift and rethinking and re-visioning of how we think
7 about extraction, how we think about forestry and to move
8 into much more of a sustainable direction.

9 MR. ANDRE PLOURDE: Okay. Thank you.

10 MR. MISHKA LYSACK: I hope that answers
11 your question but it's suggesting -- I don't have the
12 specific answer as an economist but I -- but I do have --
13 as a family therapist working here in Calgary I'm now
14 starting to, in my own practice, see the social impacts.
15 I mean --

16 THE CHAIRPERSON: We have some other
17 questions we have to --

18 MR. MISHKA LYSACK: Sure.

19 THE CHAIRPERSON: Sam...?

20 MR. MISHKA LYSACK: Sorry.

21 MR. SAM SPANGLET: Thanks. Good
22 presentation by the way.

23 MR. MISHKA LYSACK: Thank you.

24 MR. SAM SPANGLET: I have one (1) -- one
25 (1) question if you can give me a brief answer.

1 MR. MISHKA LYSACK: Sure.

2 MR. SAM SPANGLET: Give me an example of
3 -- of things that you hear from families today that you -
4 - families that you work with?

5 MR. MISHKA LYSACK: Mm-hm.

6 MR. SAM SPANGLET: Can you give me,
7 without names of course --

8 MR. MISHKA LYSACK: No, no.

9 MR. SAM SPANGLET: -- and example of
10 stress that families go through, or something like this.
11 So what type of stress? What -- what do you see that is
12 of -- one (1) highlight?

13 MR. MISHKA LYSACK: Two (2) sentences.
14 One is, we know that there's growing -- we have the
15 highest violent -- domestic violence and stalking rate in
16 Canada, growing substance abuse rate. Only -- a quarter
17 of our children will not graduate from high school. So I
18 think there are number of social indicators all of which
19 places stress on the families, and I see families.

20 But the one (1) theme that continues, just
21 to give you one (1) more piece of that, that caps it all
22 off, is I think, is this moral and ethical emptiness that
23 people are feeling. The Achilles heel of our society is
24 that simply consuming is not -- doesn't lead to happiness
25 and certainly with the youth that I work with and that's

1 the primary area that I work in, in terms of youth/adult
2 conflict -- parent conflict, that seems to be a theme
3 that's coming up again and again and people are
4 concerned.

5 MR. SAM SPANGLER: Thanks.

6 THE CHAIRPERSON: Judith...?

7 MS. JUDITH DWARKIN: Thank you. Actually
8 I think you are one (1) credit towards your economics
9 degree because you used the term "externalities" which is
10 one (1) of our favourites.

11 I acknowledge your concern that they are -
12 - the externalities on the social side, environmental
13 side, you -- are perhaps not being priced, and to an
14 economist the solution is to price them. Whereas your
15 recommendations tend to talk about change to the tenure
16 system (phonetic) and try to use that to guide behaviour
17 differently.

18 Why not -- why not just price water
19 differently or -- or price some of the effects that
20 you're concerned about as opposed to trying to, you know,
21 prod behaviour through these other mechanism. So have
22 you thought about that?

23 MR. MISHKA LYSACK: I have and I -- I --
24 my -- I'm convinced that we probably need to do both and
25 partly because I think your proposal -- I like the idea

1 of bringing -- and that's partly what I was suggesting of
2 -- of bringing those costs in, but in some ways I think
3 we're only starting to learn what those -- what the
4 benefits of a forest that cleans our water is.

5 We haven't, for example -- for example,
6 we're losing all our wildlife and -- which pollinates all
7 of our grains from which the food you're -- we're going
8 to eat at lunchtime largely is dependent and -- and it's
9 predicted by -- certainly by 2050 that a large proportion
10 of our diversity -- wildlife and so on will be gone.

11 How do you put an economic cost on that?
12 I don't know how you would. Maybe -- maybe as an
13 economist you would have the skills to do that. So I'm
14 suggesting that it's -- certainly we need to do that in
15 order to move us in that direction but I -- it -- I think
16 -- I think we also are learning more and more as our
17 science advances that we have -- we have very little
18 knowledge really of how much our environment contributes
19 economically to us.

20 MS. JUDITH DWARKIN: Thank you.

21 THE CHAIRPERSON: Evan...?

22 MR. EVAN CHRAPKO: I don't have question,
23 just an observation based on your presentation and the
24 recommendations, that it seems that this would have been
25 more appropriately delivered to the recent Oil Sands

1 Policy Review Panel.

2 MR. MISHKA LYSACK: It was.

3 MR. EVAN CHRAPKO: I don't know whether
4 you did that, yeah.

5 MR. MISHKA LYSACK: Yes.

6 THE CHAIRPERSON: It was. Okay. Thank
7 you very much for your presentation. We sure appreciate
8 you coming in.

9 MR. MISHKA LYSACK: Okay. Thank you and
10 good luck in your deliberations.

11 THE CHAIRPERSON: Thank you.

12 MR. MISHKA LYSACK: Thank you.

13 THE CHAIRPERSON: The panel is going to
14 take a ten (10) minute break and then we're going to
15 resume at, I guess it would be close to 10:05. We have
16 another slate of presentations to have an exchange. So
17 thanks very much and bear with us.

18

19 --- Upon recessing at 9:57 a.m.

20 --- Upon resuming at 10:12 a.m.

21

22 THE CHAIRPERSON: Ladies and gentlemen,
23 we were out doing a little bit of logistics. We now are
24 going to resume and we have the opportunity to hear from
25 Mr. Skowronksi --

1 MR. LEN SKOWRONSKI: Skowronski. I'm
2 sorry, sir. Representing the Alberta Social Credit
3 Party. Whenever you're ready, sir. Welcome.

4

5 PRESENTATION BY THE ALBERTA SOCIAL CREDIT PARTY:

6 MR. LEN SKOWRONSKI: Okay. Hi, my name
7 is Len Skowronski and I'm presenting this submission on
8 behalf of the Alberta Social Credit Party. Before I
9 proceed, please note that because of the ten (10) minute
10 time restriction I will be compressing or deleting
11 portions of the printed submission distributed to the
12 panel.

13 Because of high oil and gas prices and the
14 frenzied development of the oil sands Alberta is
15 experiencing an economic boom. Now, who is benefiting
16 from this boom? A look at some recent headlines from the
17 Calgary Herald will give us some idea:

18 "Canadian Natural notches four (4) full
19 Jumps in profits. Canadian Natural
20 Resources profits rose to \$269 million
21 Dollars, up from \$57 million a year
22 earlier.

23 Rising margins fuel Exxon Mobil profit.
24 Exxon Mobil earned \$39.5 billion in
25 2006, the largest profit in US history.

1 Drilling giant hits record '06 profits.
2 Ensign Energy Services net income rose
3 101 percent to \$341.3 million from
4 \$169.7 million dollars in 2005.
5 Occidental CEO shows how the rich get
6 richer. CEO of Occidental Corporation
7 took out \$270 million of option gains
8 in 2006 despite the fact he's been paid
9 \$51 million per year since 1994.
10 Oil patch execs collect wide-ranging
11 pay packs. The chief executives of
12 EnCana, Canadian Natural Resources and
13 Suncor each received between \$6.4
14 million and \$11.8 million in 2006.
15 Suncor's profits tripled.
16 Norway energy giant targets North
17 American oil sands. Norway's Statoil
18 bid to acquire all the shares of North
19 American oil sands for \$2.2 billion.
20 Statoil would be the third European
21 major to buy into Alberta's oil sands
22 projects. The two (2) others are Royal
23 Dutch Shell Group and France's Total.
24 Inflation pinching seniors. Consumer
25 prices in Calgary rose at their fastest

1 pace in four (4) years tightening the
2 pressure on those on fixed incomes as
3 housing-related and food costs
4 spiralled sharply upward.
5 More and more seniors are struggling to
6 keep their homes. They are making life
7 and death choices between do I pay the
8 heat or do I buy my medication this
9 month? Rising prices have made many
10 afraid to wait. First-time buyers are
11 scrambling to realize home ownership
12 fearing the price of homes will
13 continue to skyrocket this year in
14 Calgary.
15 Increase infuriates city renter.
16 Calgarian's monthly rent raised from
17 one thousand dollars (\$1,000) to one
18 thousand nine hundred and fifty dollars
19 (\$1,950).
20 Alberta energy revenue crashing.
21 Oil and gas revenues are expected to be
22 nearly cut in half within two (2) years
23 dropping to \$7.8 billion in 2009/'10
24 after peaking at \$14.35 billion in
25 2005/'06."

1 So we see that oil and gas companies are
2 making record profits. Their executives have become
3 extremely wealthy and foreign oil companies are
4 clamouring to get a piece of the oil sands sweet deal.
5 However, for many Albertans the Alberta advantage has
6 become a disadvantage as expenses are rising faster than
7 their incomes.

8 And to top it off, Alberta's oil and gas
9 revenues are projected to decrease instead of increase.
10 This is a result of oil sands production taking over from
11 conventional oil production and the low 1 percent royalty
12 being paid by many of the oil sands project as opposed to
13 the 15 percent average for conventional oil.

14 The subsidization of oil sands project by
15 ceding 24 percent points of royalty until capital and
16 startup costs are recouped should be curtailed for
17 conditions have changed significantly since 1997 when the
18 generic royalty system for Alberta's oil sands was
19 established.

20 The price of oil has more than doubled
21 while the cost of producing synthetic oil from the oil
22 sands has gone down. Also, considering the windfall
23 profits being enjoyed by the oil and gas industry and the
24 higher revenues collected by other jurisdictions, for
25 example, Alaska gets 50 percent more and Norway nearly

1 200 percent more, there is a lot of room for an upward
2 movement in royalty rates.

3 We propose that a single royalty regime be
4 established to repay -- replace the various schemes for
5 oil and gas, that is old oil, new oil, third tier oil,
6 old gas, new gas, and coal bed methane. This would
7 consist of a sliding scale royalty that starts at 25
8 percent for thirty dollar (\$30) a barrel oil and
9 increases as the price of oil increases as detailed in
10 the following table.

11 On the first row you'll see that oil up to
12 and including thirty dollars (\$30) we would charge a 25
13 percent royalty. So a -- a thirty dollar (\$30) barrel of
14 oil would collect a seven fifty (7.50) royalty.

15 The second row. If the price was between
16 thirty (\$30) and forty dollars (\$40) you would -- you
17 would collect the seven fifty (7.50) on the first thirty
18 dollars (\$30) and 30 percent on the amount over thirty
19 (30) so that a forty dollar (\$40) barrel of oil would
20 collect ten fifty (10.50) or an actual percentage of
21 26.25 percent.

22 Now, this would increase by 10 percent on
23 subsequent ten dollar (\$10) increments on the price of
24 oil, up till you've reached something over ninety dollars
25 (\$90). If it was over ninety dollars (\$90) you would

1 collect forty dollars and fifty cents (\$40.50) on the
2 first ninety dollars (\$90); 90 percent on that over
3 ninety (90). So a hundred dollar (\$100) barrel of oil
4 would get us forty-nine point five (49.5) -- forty-nine
5 and a half dollars (\$49 1/2) or 49.5 percent royalty.

6 Albertans shouldn't be timid about
7 increasing their take on oil and gas for since 2003 this
8 has been a trend around the world. The take in Angola,
9 Malaysia, Russia, and India is adjusting automatically
10 upward because of the progressive structure of their
11 fiscal systems. UK, Alaska, Algeria, Kazakhstan, are
12 changing their fiscal terms so as to garner a greater
13 share of oil and gas revenues. Libya and India are
14 realizing increased revenues as companies bid up the
15 government take in bid rounds. Venezuela, Bolivia, and
16 Russia are nationalizing some of their major oil and gas
17 projects.

18 The increased resource revenues would
19 allow us to invest a significant portion into Alberta's
20 Heritage Trust Fund so that it could match or better the
21 \$40 billion Alaska Permanent Fund or the \$240 billion
22 Norway Petroleum Fund.

23 If Alberta had applied the proposed
24 royalty rates last year we would have received an
25 additional \$18 billion. If additional royalties of this

1 order were deposited into the Heritage Trust Fund over
2 the next ten (10) years the fund capital would increase
3 by at least \$180 billion and earn at least another \$50
4 billion in investment income.

5 These additional funds could someday be
6 critical to Alberta when either our nonrenewable
7 resources become depleted or the price we collect for
8 these resources drops. Also, the investment income could
9 be distributed to Albertans as a yearly dividend helping
10 them cope with the increased cost of living and giving
11 them a true sense of ownership of their oil and gas
12 resources.

13 We wouldn't need foreign investment to
14 develop our oil and gas resources if we were not shipping
15 so much of the profits south along with our oil and gas.
16 If the Alberta Government takes a larger share of the
17 income from the oil and gas resources through increased
18 royalties and grows the Heritage Trust Fund it would be
19 able to use some of these funds to invest in oil and gas
20 companies thus ensuring Albertans receive a much better
21 share of our energy resource wealth.

22 In conclusion, Albertans deserve a much
23 better share of the oil and gas wealth than we are
24 currently receiving. This can be achieved by
25 implementing a new royalty scheme similar to the one we

1 have proposed in this submission and by growing the
2 Heritage Trust Fund so that it can provide for present
3 and future generations of Albertans.

4 On behalf of the Alberta Social Credit
5 Party I thank you for your attention and hope that you
6 will give serious consideration to our message on this
7 crucial issue.

8 THE CHAIRPERSON: Thank you, sir. If
9 you'll allow us some questions?

10 MR. LEN SKOWRONSKI: Sure thing.

11 THE CHAIRPERSON: Sam...?
12

13 QUESTIONS BY BOARD:

14 MR. SAM SPANGLET: Thanks. Very detailed
15 proposal. One (1) -- one (1) point, natural gas. Any
16 proposal regarding natural gas?

17 MR. LEN SKOWRONSKI: That's the same. We
18 take the -- the barrel of oil equivalent.

19 MR. SAM SPANGLET: Okay.

20 MR. LEN SKOWRONSKI: So just one (1)
21 scheme. People are complaining the royalty scheme is too
22 complicated. Here is a very simple one. If you need
23 incentives, leave that to adjusting the mineral tax or
24 the income tax.

25 MR. SAM SPANGLET: So natural gas really

1 was the same equivalent?

2 MR. LEN SKOWRONSKI: The same, yes.

3 MR. SAM SPANGLET: Thank you. That's
4 all.

5 THE CHAIRPERSON: Evan...?

6 MR. EVAN CHRAPKO: You -- on -- on page 3
7 here you're proposing that a single regime be
8 established; then you present a table and then after that
9 you're going back to mandating other objectives such as
10 more efficient technologies and promoting the exploration
11 of new reserves.

12 The regime, as it exists, is meant to do
13 that, so on the one (1) hand you're -- you're asking an
14 abolishment of the regime but reintroducing some of the
15 same principles?

16 MR. LEN SKOWRONSKI: Well, I -- I
17 recognize you have to -- you -- in some cases you have to
18 -- you do have incentives and I'm saying put that into
19 adjusting your mineral tax and your income tax as most
20 other industries are handled.

21 MR. EVAN CHRAPKO: Instead of through the
22 royalties?

23 MR. LEN SKOWRONSKI: Instead of through
24 the royalties. I think as -- as owners of this we
25 deserve a fairly clear, set amount of royalties so that

1 all -- most Albertans don't know what they're getting.
2 They do know they're getting sixty (60) cents for every
3 sixty (60) barrels of oil on something -- some things in
4 the oil sands.

5 But the conventional stuff, the pump that
6 we see outside by the airport and so on, they have no
7 idea what percentage they're getting. And when you tell
8 them that it averages to 15 percent they're actually
9 quite abhorred about it.

10 Let's make it simple but let's make it
11 much larger.

12 THE CHAIRPERSON: Ken...?

13 MR. KEN MCKENZIE: This is the second
14 time you've mentioned this "averages to 50 percent"
15 figure. I don't know where that figure comes from.

16

17 (BRIEF PAUSE)

18

19 MR. KEN MCKENZIE: Did you say --

20 MR. LEN SKOWRONSKI: Fifteen percent.

21 MR. KEN MCKENZIE: Thank you. Fifteen
22 (15). Thank you for clarifying that.

23 MR. LEN SKOWRONSKI: One five (15).

24 MR. KEN MCKENZIE: That's much better.

25 Thank you.

1 Okay. So now for a real question. This
2 regime that you have suggested, this would apply to both
3 oil sands and conventional?

4 MR. LEN SKOWRONSKI: Yes.

5 MR. KEN MCKENZIE: And the base, the
6 royalty base here, that you're proposing is simply gross
7 revenue; it's not net revenue?

8 MR. LEN SKOWRONSKI: Gross revenue.

9 MR. KEN MCKENZIE: Okay. Second point.
10 Is this -- under the current regime we actually collect
11 oil royalties in kind and then pay an agent to market
12 them. This sort of progressive marginal rate system that
13 you've proposed doesn't work very well in that sort of
14 environment.

15 MR. LEN SKOWRONSKI: Why not?

16 MR. KEN MCKENZIE: So you -- well,
17 because your -- your marginal rate is going up but your
18 average rate is going up at a slower rate. Because
19 you're talking about collecting seven fifty (7.50) on the
20 first -- we base -- actually basically collect barrels of
21 oil from these people according to the royalty formula
22 and then we sell it.

23 MR. LEN SKOWRONSKI: So when you collect
24 it you --

25 MR. KEN MCKENZIE: Yeah.

1 MR. LEN SKOWRONSKI: -- take the price on
2 the day you collect it to compute your royalty. And if
3 you want to keep it until the price goes higher, good for
4 you, or if you keep it too long, the price goes down then
5 that's your risk.

6 But accounting -- with computers and so
7 on, accounting is not a problem.

8 MR. KEN MCKENZIE: Okay. That's not what
9 I'm talking about, but that's okay.

10 MR. LEN SKOWRONSKI: And this is very,
11 very simple. It's actually quite simple to -- to
12 remember.

13 MR. KEN MCKENZIE: Okay. I -- I won't
14 get into a debate with you on that point, but I think
15 there are some issues that we'd have to be -- it would
16 have to be --

17 MR. LEN SKOWRONSKI: Well -- but they can
18 all be ironed out.

19 MR. KEN MCKENZIE: Okay. Thank you.

20 THE CHAIRPERSON: Judith...?

21 MS. JUDITH DWARKIN: More an observation
22 than a question, I guess. And your suggestion to
23 basically have one royalty system apply to all the
24 different types of resource including oil sands and then
25 have any special fixes that are required to recognize

1 the, you know, particular cost characteristics or
2 production challenges of the resource, be handled through
3 the tax system is somewhat at odds with the notion that a
4 -- a royalty system collect -- is to collect the owners
5 share and the owners share by definition is sort of, some
6 or all of economic rent, whereas the tax system targets
7 profit.

8 MR. LEN SKOWRONSKI: Mm-hm.

9 MS. JUDITH DWARKIN: And so to -- to be
10 using the tax system to somehow adjust for differentials
11 in economic rent is unusual.

12 MR. LEN SKOWRONSKI: Well, I -- our claim
13 is that there shouldn't be a diff -- I mean, you're --
14 for a packet of energy, you should be getting the same
15 whether it's bitumen or natural gas or coal bed methane;
16 we should be -- we the owners should be getting --
17 getting the same amount.

18 MS. JUDITH DWARKIN: Hence your --

19 MR. LEN SKOWRONSKI: Now -- now --

20 MS. JUDITH DWARKIN: -- recommendation on
21 gross -- a gross royalty rate rather than net.

22 MR. LEN SKOWRONSKI: Now, it's up to the
23 producer to make sure he's making a good profit and, of
24 course, if he's making more profit, he's paying more
25 taxes, so we could give him more incentives. Right now

1 would you react to -- to that?

2 MR. LEN SKOWRONSKI: Well, if you
3 compare it back, oh, say -- say ten (10) years, I think
4 it was some -- somewhere around twenty (20) --
5 twenty/twenty-two (\$20/\$22) dollars was your breakeven
6 then it went down to about twelve (\$12) dollars. Now,
7 maybe it's gone up again.

8 Again, just because there is -- we're -
9 - we're developing too many projects at the same time, we
10 have a shortage on manpower, the price of materials have
11 gone way up, so of course the costs have exploded. But
12 that's more the fault of the people developing it or
13 maybe of the government for not having regulated it
14 better.

15 So if we would've had a -- a more managed
16 development of the oil sands, we wouldn't have this
17 squeeze where we're importing all kinds of workers, and
18 of course materials have gone way up.

19 So -- so again by something like this,
20 this would maybe discourage some of the people to come
21 and it would maybe cause us a little bit of a breath --
22 breathing room. It would chase away some of the
23 developers and that would be good for about five (5)
24 years, then they'd come back because there's not much --
25 nowhere else to go.

1 They may cry and say, Oh, we're going to
2 leave Alberta, but still even with this kind of a regime
3 Alberta's still one of the best places to come. And
4 there virtually is no risk -- little risk in the oil
5 sands. They know the reserves are there, it's not like
6 conventional oil and gas where you drill a hole into a
7 seismic play and you're not sure if there's anything
8 there. They know the oil and gas is there, they just
9 have to go and produce it, improve their technology and
10 they'll -- the oil is there.

11 MR. ANDRE PLOURDE: Good. Thank you.

12 THE CHAIRPERSON: Thank you very much for
13 your contribution this morning, sir.

14 MR. LEN SKOWRONSKI: Thanks.

15 THE CHAIRPERSON: Have a great day.

16 Next we have an opportunity to hear from
17 an Albertan, Larry Negrave. If you are here, sir.

18 MR. LARRY NEGRAVE: Good morning.

19 THE CHAIRPERSON: Welcome, sir.

20

21 PRESENTATION BY MR. LARRY NEGRAVE:

22 MR. LARRY NEGRAVE: My name is Larry
23 Negrave. I've lived in Alberta for the last fifty-five
24 (55) years. I'm currently a board member of COSA, which
25 is the abbreviation for Coalition of Seniors Advocates,

1 an association here in southern Alberta, Red Deer South,
2 numbering approximately four hundred (400) members. To
3 Chairman and panel members, thanks for the opportunity
4 afforded me to present my submission on royalty review.

5 I'm going to primarily devote my short
6 little spiel here on the oil sands operations. At the
7 outset, I quote the mission statement of the Minister of
8 Energy, Mr. Knight as presented in the 2007 budget
9 papers. He states, and I quote:

10 "Optimize a sustained contribution from
11 Alberta's energy and mineral resources
12 in the interests of Albertans." End of
13 quote.

14 As a twenty-five (25) year employee now
15 retired from the oil and gas industry, I cannot
16 comprehend how this mission statement can be achieved
17 unless the government enacts drastic changes to the
18 royalty structure, primarily to the oil sands producers.

19 The current low oil royalty rate is
20 nothing more than a subsidy to some of the wealthiest
21 companies in the world; example, Exxon, Shell Suncor --
22 and is a sham to both us, our children and our
23 grandchildren. Meanwhile our so-called Alberta
24 advantaged booming province is chronically short of
25 hospital beds, rundown school facilities, affording house

1 -- affordable housing units and large municipal debts.

2 Seems very ironic to me, and I'm sure to
3 others, that one of the fastest growing industries in our
4 major cities are our food banks. I've worked in them
5 many times and they're growing in this city.

6 Meanwhile, the developers of the oil sands
7 are given royalty breaks. They ship some of their raw
8 bitumen to Chicago and other places south so we Albertans
9 don't even have the benefit of getting jobs in their
10 upgrading plants. Adding value to bitumen can greatly
11 expand work and business opportunities for Albertans and
12 increase our share of royalty revenues.

13 If memory serves me correct, I recall our
14 Premier stating that during his leadership race that he
15 believed that tar sands bitumen should be upgraded here
16 in Alberta.

17 The strategy of the US dominated industry
18 in Alberta is to extract a depleting resource as fast as
19 possible and sell it for a maximum profit to the United
20 States for their industrial and military machine.

21 The rate of new building and plant
22 expansions in Fort McMurray have caused Alberta's economy
23 to become totally out of control. I've heard this
24 statement -- I've been here for the last two (2) days and
25 this statement was repeated on more than one (1) occasion

1 and I think there's so much validity in that. A drastic
2 increase in crown royalties, in my opinion, will slow
3 down this growth for the betterment of all Albertans and
4 Canadians.

5 Clean natural gas is used in the
6 processing of the tar, water is squandered and our air is
7 polluted. Just ask the -- the natives in the Athabasca
8 area what they think of the Athabasca River with regards
9 to their fishing. They'll -- they'll tell you a story or
10 two (2).

11 The companies profit, shareholders become
12 richer and our environment is being devastated.

13 Alberta's take of energy revenue has been
14 stuck at 19 percent for several years, less than its
15 minimum goal of 20 percent and far less than 24 percent
16 seen in 1999 to the 2001.

17 According to the last budget, oil sands
18 royalties were at 2.4 billion in 2006/'07 and are
19 projected to fall by half to 1.2 billion in the years
20 2009 to '10, partly because these companies are charged
21 the royalties on lowly valued bitumen rather than the
22 higher expensive synthetic oil. It is clear we are not
23 getting enough for our resour -- for our resources.

24 I submit that all oil sands producers'
25 royalty should be set at 25 percent of gross production

1 of revenue. Payout of plant costs should not be
2 considered in the determination of royalties. There is
3 no need to provide any incentive for companies producing
4 this tar sands oil to further increase their bottom line
5 profits. Current plants under construction should also
6 be subbed to this royalty rate.

7 THE CHAIRPERSON: Mr. Negrave, have you
8 got a paragraph that will bring your contribution -- you
9 ran out of time, sir.

10 MR. LARRY NEGRAVE: Yes. Can it -- yes,
11 I've got -- gee whiz, I've got two (2) paragraphs.

12 THE CHAIRPERSON: Okay. I will give you
13 the benefit of the doubt.

14 MR. LARRY NEGRAVE: Thank you very much,
15 sir.

16 THE CHAIRPERSON: You are welcome.

17 MR. LARRY NEGRAVE: Canada's five (5)
18 largest energy companies, all major oil sands players,
19 recorded their best ever year in 2006 despite soaring
20 costs in the field. Lead by Encana, which made the
21 largest profit in Canadian history, the group -- groups
22 bottom line jumped 55 percent from 2005. These five (5)
23 -- summation -- their combined profits were 17.6 billion.

24 These are astronomical profits when you
25 consider Alberta's budget surplus is approximately \$8

1 billion.

2 Companies (sic) like Saudi Arabia,
3 Venezuela, Russia and Iran aren't exactly classic
4 destinations despite their large crude oil reserves. If
5 flight of capital is a genuine concern to the majors, I
6 ask you, where would these companies go? It becomes very
7 obvious it is a hollow threat, they won't go anywhere.

8 In conclusion, the primary objective of or
9 -- of our royalty system is to provide a fair return to
10 Albertans for our resources and it is obvious that our
11 present loyalty -- low royalty structure is not giving
12 Albertans a fair return. That's --

13 THE CHAIRPERSON: Thank you, sir,
14 appreciate that. You will allow us a few questions?

15 MR. LARRY NEGRAVE: Certainly.

16 THE CHAIRPERSON: Andre...?
17

18 QUESTIONS BY BOARD:

19 MR. ANDRE PLOURDE: Thank you. A few
20 things. Thank you for your presentation and thanks for
21 the material circulated ahead of time.

22 You made a statement at the top of page 2
23 in terms of adding value to bitumen and with -- with the
24 idea that if we didn't do this in Alberta somehow it
25 would reduce royalty revenue.

1 royalty system. Perhaps -- because I think it's
2 incumbent on producers in the tar sands areas there that
3 they have to clean up their act. It should not be -- we
4 -- we should not be giving them an inducement or a -- or
5 a break or any kind of a subsidy to -- to operate the way
6 they should be operating, to protect our environment. I
7 -- if they do, fine, we'll -- we will -- royalties will
8 be calculated according to what I just stated.

9 If they don't, well then, perhaps they
10 should be penalized. This money then could go into a
11 environmental fund and if it's left up to the Government
12 to clean up their mess, well at least we are not
13 receiving this money from Albertans.

14 MR. ANDRE PLOURDE: Okay. Thank you.

15 THE CHAIRPERSON: Judith...?

16 MS. JUDITH DWARKIN: Thank you and thank
17 you for your contributions. I'm going to put a
18 proposition to you and -- and -- yes, I'm going to
19 proposition you, in public -- and I'd be interested in
20 what you think.

21

22 (BRIEF PAUSE)

23

24 MS. JUDITH DWARKIN: Okay. It seems to
25 me there's -- there's really two (2) issues -- well, you

1 raised many issues -- but the two (2) that I'm sort of
2 going to focus on is the issue of the fair share for the
3 owner of the resource and --and your view is that the
4 owner isn't receiving a fair share at present. And the -
5 - a second issue is infrastructure and the state of it in
6 the province.

7 And I guess I'd like to put to you that
8 the fair share issue, whatever the fair share is, is
9 whatever it is. And the issue of infrastructure perhap -
10 - would you accept or acknowledge or agree that that goes
11 more so to issues of capital budget planning and
12 spending, regardless of how much is received as the fair
13 share, how it is spent and used to support infrastructure
14 issues is -- is a different issue.

15 Is that a fair comment?

16 MR. LARRY NEGRAVE: Well, I guess perhaps
17 one (1) of the reason why municipal, provincial
18 infrastructure is -- is lacking right now is our
19 provincial government is saying that, you know, we have
20 only so many dollars to pass on to the municipalities.

21 Now if, in fact, we were receiving our
22 fair share, these dollars would pass down to the
23 municipalities, so our infrastructure could be bettered;
24 our roads, our water plants, right across the whole
25 province.

1 MS. JUDITH DWARKIN: Okay. Thanks.

2 MR. LARRY NEGRAVE: I don't know if I
3 answered your question or not, but --

4 MS. JUDITH DWARKIN: Yeah, you did.

5 MR. LARRY NEGRAVE: -- that was the best
6 I could --

7 THE CHAIRPERSON: Ken...?

8 MR. KEN MCKENZIE: Yeah, thanks very much
9 for you -- your -- your presentation and your thoughts.
10 Just a -- sort of a -- a big picture question. You're
11 not the only person that's referred to the energy driven
12 overheated economy and -- and some of its problems and
13 were well -- you know, sensitive to that -- to that
14 issue.

15 But then you talk about arguing for more
16 upgrading, for example, in Alberta and given then current
17 nature of the economy that would just seem to exacerbate
18 the problem; we're -- you're actually arguing for more
19 economic activity in the sense of upgrading.

20 So are you, in fact, arguing for a system
21 that lowers the level of overact -- the overall activity,
22 but somehow changes the composition of that activity, so
23 that there's a lower overall amount but more of it is --
24 is in the nature of upgrading; is that what you're
25 talking about?

1 MR. LARRY NEGRAVE: Well, perhaps --
2 perhaps we should be limiting the -- the number of plants
3 that our -- in the operations today. You know, I mean,
4 we can't go on and on and on and -- and give the green
5 light to A, B, C, and D companies to come in here and
6 exploit our resources and pollute out air.

7 We have to put a -- a little damper on --
8 on the number, I think, and that would -- that would
9 help. But I mean as far as I'm saying that, yes,
10 upgrading maybe should -- should be done here rather than
11 upgrading the crude down south.

12 But then with our technology that we have
13 today, I'm sure -- I don't know if I'm sure -- but I feel
14 that we should be able to do something to the emissions
15 that are caused by upgrading. We should be up to handle
16 them in a responsible manner.

17 MR. KEN MCKENZIE: Thank you.

18 THE CHAIRPERSON: Evan...?

19 MR. EVAN CHRAPKO: Just a clarification.
20 You said no grandfathering?

21 MR. LARRY NEGRAVE: That's what I said.

22 MR. EVAN CHRAPKO: And another
23 clarification on gross, not net because your argument was
24 no costs.

25 MR. LARRY NEGRAVE: I'm saying on gross.

1 MR. EVAN CHRAPKO: That's it.

2 THE CHAIRPERSON: Sam...?

3 MR. SAM SPANGLET: Quick one. Great --
4 great work my friend. On page 2 you said Alberta take of
5 energy revenue has been stuck at 19 percent; what do you
6 mean by that, like, because the numbers I have in my head
7 is like forty (40) some percent?

8 MR. LARRY NEGRAVE: Yeah. Well, you
9 see --

10 MR. SAM SPANGLET: Or maybe we're talking
11 about different numbers?

12 MR. LARRY NEGRAVE: No, I -- I -- we're
13 prob -- we're -- I got these numbers from stats from the
14 Globe and Mail, Sam, --

15 MR. SAM SPANGLET: Mm-hm. Okay.

16 MR. LARRY NEGRAVE: -- you know, I
17 perhaps should have or could have researched a little
18 better.

19 MR. SAM SPANGLET: I got -- it got your
20 point though. I understand it, don't worry about it. I
21 just wanted to clarify whether we talked the same numbers
22 or not.

23 MR. LARRY NEGRAVE: Sure

24 MR. SAM SPANGLET: We might be talking
25 about different numbers, but it's --

1 MR. LARRY NEGRAVE: Yeah.

2 MR. SAM SPANGLER: Thanks very much.

3 THE CHAIRPERSON: Really appreciate your
4 contribution today, sir. Thank you very much.

5 MR. LARRY NEGRAVE: Thank you.

6

7 (BRIEF PAUSE)

8

9 THE CHAIRPERSON: Ladies and gentlemen, I
10 apologize, again. We are dealing with the logistics of
11 people coming and not coming and switching around, so
12 what we are going to do is take one more ten (10) minute
13 break. We are going to reconvene at 11:00 and our three
14 (3) presenters for eleven o'clock are here, so, we are
15 back on track.

16 So with your indulgence, a class a water,
17 a coffee and I wish I was going for a scotch.

18

19 --- Upon recessing at 10:48 a.m.

20 --- Upon resuming at 11:02 a.m.

21

22 THE CHAIRPERSON: Thank you, ladies and
23 gentlemen. We're back into session and we have an
24 opportunity to hear from Ms. Ginzer, Citizens for
25 Sustainable Okotoks, if you're here. Good morning.

1 PRESENTATION BY CITIZENS FOR SUSTAINABLE OKOTOKS:

2 DR. NANCY GINZER: Good morning, I'm Dr.
3 Nancy Ginzer and I'm here on behalf of Citizens for
4 Sustainable Okotoks, which is a newly formed organization
5 concerned with environment and sustainable issues in
6 Alberta.

7 My suspicion that these panel hearings are
8 merely a cynical public relations exercise to appease the
9 public were confirmed when I read yesterday's headline in
10 the Calgary Herald, "Don't Expect Royalty Changes -
11 Oberg."

12 If Mr. Oberg has already made up his mind
13 I can only ask what we're all doing here this morning.

14 Make no mistake, the petroleum producers'
15 lobby has great say with Mr. Oberg and our government
16 leaders because money always has the Government's ear.
17 Money trumps the interests of the common people every
18 time.

19 Mr. Oberg has defended the oil companies'
20 demand for no change in the 1997 royalty structure which
21 is, incredibly, still based on ten dollars (\$10) a barrel
22 by claiming their costs have increased significantly
23 while their profits have decreased. I guess the slight
24 decrease in the \$6.5 billion Encana made last year to
25 cite just one (1) example would be a disappointment.

1 My guess is also that Premier Stelmach is
2 going to ride in on a white horse at the last minute,
3 pre-election, to give a minuscule raise in the royalties
4 to make it look as though he's listened to the people of
5 Alberta. This is not good enough.

6 Energy is the lifeblood of a civilization
7 and as all informed citizens know the world's supply of
8 easily accessed oil is now at or near the point of
9 decline; peak oil if you will. Yet with the short-
10 sighted complicity of governments and corporations,
11 Americans, Canadians, and now the Chinese have among the
12 highest SUV gas-sucking, mindless fossil fuel consumption
13 rates in the world as they continue to burn it up in the
14 face of global warming with utter disregard for the
15 people of this planet.

16 In support of this massively irresponsible
17 consumption, our government gives away our oil at an
18 astonishingly basement bargain sale price, as little as 1
19 percent royalties to 19 when compared to developed
20 countries such as Norway whose leaders wisely demand 50
21 and other countries' leaders who demand even more vis-a-
22 vis President Chavez of Venezuela.

23 I'm not getting our due. Estimates show
24 Alberta has -- having lost \$200 billion in oil revenues
25 since 1993 -- billions -- that should have been used for

1 the critical implication -- implementation, sorry, of our
2 own energy security; billions that should have been used
3 to develop mass renewable energies to protect our
4 environment from the greenhouse effect which is what the
5 governments of Europe have wisely been doing while our
6 unenlightened leaders have been twiddling their thumbs
7 with no plan at all, as Ralph Klein has said. This is
8 unacceptable governance to all thinking societies.

9 As the current situations in Iran and
10 Afghanistan prove the USA is desperate for every drop of
11 oil it can get and China and India aren't far behind.
12 This puts Alberta in a prime bargaining position in the
13 catbird seat (phonetic). We give our government the
14 moral and legal authority, on our behalf, to charge the
15 best possible world price and no other nation should
16 interfere.

17 Our government has every right to charge
18 companies, in particular, foreign corporations exactly
19 what fossil fuel energy is worth at this critical time in
20 history, which is this; a price worth its weight in gold,
21 only secondary to water. And don't worry with what's
22 coming, the corporations will make their billions off of
23 our energy regardless of what we charge.

24 Commonsense dictates, then, that we
25 renegotiate NAFTA and that we charge a fair and top

1 dollar for American energy; at the very least, equivalent
2 to that of the Scandinavian countries. Yes, keeping in
3 mind our difficult extraction costs, but also keeping in
4 mind our severe water depletion and the immense cleanup
5 costs for the environmental destruction incurred. It is
6 a depressing and gaping black hole up north, as anyone
7 who's seen it knows, and if this continues it's going to
8 damage a massive territory.

9 As for a potential slowdown if we increase
10 our royalty rates, this would be welcomed by all sensible
11 Albertans as the inflationary unsustainable growth we are
12 now seeing is both ugly and shortsighted and contrary to
13 the sustenance of good and healthy communities.

14 Protecting the land and conserving energy
15 for our own children's future and that of our country
16 should be paramount. Isn't this what a conservative
17 government is meant to do; conserve for the future?

18 I was told I could have an extra couple of
19 minutes. As Robert F. Kennedy Jr. says, the measure of
20 good government is how it distributes the good of the
21 land. Does a government safeguard the public trust
22 assets on behalf of the public or does it allow it to be
23 stolen from the public by corporate power?

24 Safeguarded for the public or stolen from
25 the public, that is the choice. Thank you for your time.

1 THE CHAIRPERSON: Thank you. You will
2 allow us a few questions?

3 DR. NANCY GINZER: Sure.

4 THE CHAIRPERSON: Andre...?
5

6 QUESTIONS BY BOARD:

7 MR. ANDRE PLOURDE: Thank you very much
8 for your presentation. If I understood this -- if --
9 following the -- the -- the gist of your conversation, I
10 would argue this is largely directed at oil sands ex --
11 exploitation, would that be a fair --

12 DR. NANCY GINZER: Yes.

13 MR. ANDRE PLOURDE: Okay. Would you have
14 any -- what are -- what views would have in terms of the
15 conventional oil and gas activities in the province?

16 DR. NANCY GINZER: I can't speak so -- so
17 much for that other than I know coal bed methane extract
18 is extremely de -- degrading to the environment and this
19 is a problematic issue.

20 MR. ANDRE PLOURDE: And do you think the
21 royalty system is a good place to -- to deal with those
22 kinds of issues?

23 DR. NANCY GINZER: Well, I think the
24 Federal and the provincial governments have the authority
25 to penalize these companies for any kind of environmental

1 degradation that's going on and that should have nothing
2 to do with the royalty issue; that's a separate issue.

3 MR. ANDRE PLOURDE: All right. Thank
4 you.

5 THE CHAIRPERSON: Ken...?

6 MR. KEN MCKENZIE: Yeah, I would -- just
7 to pursue that idea a little bit more. So you've talked
8 about an energy-driven overheated economy and some of the
9 negative aspects of that and I -- and I understand
10 exactly what you're saying, and you talked about how a
11 slowdown may be a good idea.

12 So you sort of -- and -- and the answer to
13 the last question, I think, actually clarifies this --
14 this for me -- so you actually see the royalty system
15 perhaps playing a part in -- in terms of the
16 environmental degradation, in -- in the sense that if we
17 increased our take, that there would be a reduction in
18 activity and --

19 DR. NANCY GINZER: Hopefully.

20 MR. KEN MCKENZIE: Hopefully. Well, and
21 then also, more targeted measures which might be outside
22 of the royalty system, aimed at trying to deal with
23 environmental issues, is that a correct --

24 DR. NANCY GINZER: Absolutely.

25 MR. KEN MCKENZIE: Okay, so I just wanted

1 to clarify that, thank you.

2 THE CHAIRPERSON: Judith...?

3 MS. JUDITH DWARKIN: Thanks. I want to
4 clarify a comment you made about foreign companies being
5 charged more.

6 Did -- do you mean to propose that the
7 royalty system differentiate between royalties being paid
8 based on the companies' sort of country of residence?

9 DR. NANCY GINZER: Of course. I am a
10 Canadian, I'm patriotic, I want to pre -- preserve the
11 environment and our resources for our people first and
12 foremost. We do not have a security commission or
13 anything that's looking into preserving oil in -- and --
14 for our future. In light of what's coming, world oil
15 production has maxed-out Taltson and I know -- a lot of
16 people don't believe in peak oil, but I do, I've read the
17 numbers.

18 And yes, I do believe that we should look
19 after our own people first, then, yes, our neighbours to
20 south. But at this point right now, George Bush has said
21 Americans are addicted to oil; he's admitted that. And
22 Dick Cheney said to that -- let me quote this -- that:

23 "The American way of life is non-
24 negotiable."

25 That means to continue, you know, the SUV

1 greedy pig consumption rates that they have and until
2 they start changing their ways and prove to us that they
3 are as interested in preserving the world's environment
4 the way it needs to be done, they should be penalized for
5 it by having, yes, not equal rate with Canadians, by any
6 means.

7 MS. JUDITH DWARKIN: Thanks.

8 THE CHAIRPERSON: Sam...?

9 MR. SAM SPANGLET: Thanks. That was
10 interesting. I -- one (1) question. You suggested that
11 so many things are wrong --

12 DR. NANCY GINZER: Yes.

13 MR. SAM SPANGLET: I'm not arguing
14 whether they are or not. As a matter of fact it makes a
15 lot of sense, and the things that you suggested that are
16 wrong.

17 How do you suggest we solve it through the
18 royalty system? How is it connected to -- how can we
19 help there? This is my point. How can we --

20 DR. NANCY GINZER: Well, as I said --

21 MR. SAM SPANGLET: -- help?

22 DR. NANCY GINZER: As I said, if the
23 royalties are so high and companies like Mr. Hewitt this
24 morning on the radio saying we've got to pull out because
25 we're not going to make enough money, and we shrink the

1 oil production to a smaller amount of money that's being
2 -- amount of oil that's being taken out of the ground, I
3 do believe the money will still be being made at a very
4 high rate despite that, as I said.

5 And as I said that royalty money should go
6 towards sustainable, renewable energy. I mean, look at
7 England and the Scandinavian countries in Europe, these
8 people are smart. They're looking out for their future.
9 What are we doing here? Nothing. The amount of wind
10 power, solar power, light rail transit kind of
11 infrastructure that's being built and invested in Canada
12 is very, very minuscule.

13 THE CHAIRPERSON: In your research was
14 there one (1) specific country that you thought had a
15 really good foundation for the way they collected their
16 royalties and reapplied it? You mention Norway or
17 Scandinavia.

18 DR. NANCY GINZER: Well, I can't speak
19 for numbers. I'm not an economist but I do support the
20 Pembina Institute and the Parkland Institute's figures
21 because these people study --

22 THE CHAIRPERSON: Mm-hm.

23 DR. NANCY GINZER: -- those issues. So
24 I'm sorry, I'm not an accountant.

25 THE CHAIRPERSON: Okay.

1 DR. NANCY GINZER: Okay.

2 THE CHAIRPERSON: Thank you very much for
3 your presentation.

4 DR. NANCY GINZER: You're welcome. Thank
5 you very much.

6 MR. SAM SPANGLER: Take care now.

7 THE CHAIRPERSON: Next we have an
8 opportunity to hear from Mr. Watts from Devon Canada.

9

10 (BRIEF PAUSE)

11

12 THE CHAIRPERSON: We've made the big
13 times when we're sending in pinch-hitters.

14 MR. CHRIS SEASONS: My batting average
15 isn't quite Chad's but I'll -- I'll do my best.

16

17 PRESENTATION BY DEVON CANADA:

18 MR. CHRIS SEASONS: Good morning and
19 hopefully you've got a copy of the -- the information
20 that we've got so you can flip through it as we go
21 through it.

22 My name is Chris Seasons. I'm the
23 president of Devon Canada and I'd like to thank you for
24 the opportunity to speak this morning. And thank you all
25 for your time that you're putting towards this because

1 this is obviously a long process and I think it's
2 obviously an important one, in that people have an
3 opportunity to communicate their views on the royalty
4 system and any other concerns with -- with how we're
5 using that money in Alberta. So you're all to be
6 commended for -- for dedicating your time towards it, so,
7 thank you for being here as well.

8 My presentation this morning is probably a
9 little simpler than a number of the other oil companies
10 have put forward. I'd like to talk about the
11 conventional oil and gas business predominantly, and also
12 talk specifically about our experience within Devon. And
13 so I'll spend quite a bit of time setting the stages as
14 to -- as to who we are and both in Canada and in the --
15 in the parent company in the US, as well, and then give
16 you some perspectives on -- on sort of the day-to-day
17 life of investing in Alberta as compared to other
18 opportunities that we have around the world.

19 So if I can move on, I'll just flip
20 through it and talk about Devon Energy on -- on the first
21 page. We're the second-largest US-based independent;
22 that means a company without a refining downstream aspect
23 to the business. We produce about five hundred and
24 ninety thousand (590,000) barrels a day -- two-thirds
25 (2/3s) of that is gas, the rest is oil -- and 90 percent

1 of our production is -- is in North America and that's a
2 bit different than probably most of the -- the large
3 companies out there.

4 So clearly our effort has, and our focus
5 has been on -- on predominantly gas, in North America.
6 We're also active in the deepwater Gulf of Mexico and --
7 and internationally and we have about an enterprise value
8 -- so stock plus debt -- of about \$40 billion US. A fair
9 -- fair sized company.

10 In the context of -- of Devon Energy as a
11 whole, Canada on a reserve basis, at the year -- at the
12 end of 2006 was 29 percent of the company. The onshore
13 US business was 57 percent of the company. And on a
14 production basis similar numbers; about 27 percent of the
15 company is in Canada, 52 percent is in the onshore US.

16 Now, I'm referring to the onshore US
17 predominantly rather than the other aspects of our
18 business, in that from my perspective and from what I've
19 seen working with my peers in the US over the last number
20 of years, that is the closest analog in terms of the
21 royalty and tax system that they have in place, as well
22 as the quality of the reservoir opportunities that --
23 that are available there.

24 I don't see Norway as -- as an example,
25 which has been talked about a lot in the press -- as

1 tremendously analogues to our business her in -- in
2 Canada. So the onshore North American business is -- is
3 quite similar. So within Devon, we're about a quarter of
4 the company or -- or a third of the company, so a fair --
5 fair chunk of it.

6 If we look at Devon in Canada, we're the
7 fourth or fifth, depending on -- on how you measure it,
8 largest independent producer in Canada; about comparable
9 in size to Talisman's production here.

10 Our current production is about a hundred
11 and ninety thousand (190,000) barrels of oil equivalent
12 per day, so a fair size, and about two-thirds (2/3s) of
13 that is gas, the rest is -- is liquids. Eighty-one
14 percent of that production comes from Alberta, so we're
15 quite familiar with -- with the Alberta environment.

16 And we currently employ about sixteen
17 hundred (1,600) staff in Alberta with about a thousand
18 (1000) of them in Calgary and the rest in -- in a half
19 dozen field offices spread across the province and
20 northeast BC. And we have a very strong inventory of
21 opportunities per -- to pursue and that being, heavy
22 investors in the province for -- for many, many years.

23 So just in terms of the scope of
24 operations that we have here, to give you some
25 perspective of what we see, and I think this is

1 important, the context it's in, that we -- we cover from
2 to soup to nuts.

3 A number the players you will see will
4 talk to specifically, heavy oil or to -- to shallow gas
5 and -- and just to give you some perspective of -- of
6 what we are. We're -- we're a pretty good cross section
7 to the business. On the gas side of it we handle --
8 we're involved in shallow gas in northeast Alberta, coal
9 bed methane in central Alberta, deep sweet sour -- and
10 sour gas in the deep basin, the Grande Prairie, Grande
11 Cache area and deep sour, in foothills, gas down in the
12 Coleman area.

13 On the oil side of it, we're in the
14 conventional light oil business. We're in the miscible
15 flooding business; Swan Hills with hydrocarbon miscible
16 and CO2 miscible flooding, and we're in cold flow heavy
17 oil in the Lloydminster, Bonneville area.

18 And on the thermal side of the business,
19 we're just in the final stages of completing a SAGD
20 project in the Conklin area. We have another project in
21 an application phase and we were the operator and
22 majority owner of the original SAGD process at Dover for
23 -- for many years.

24 So we've been around the block and have
25 quite a bit of experience across -- across the basins.

1 structure and you've seen statistics from -- from a
2 number of companies and from -- from associations such as
3 CAPP yesterday. In our perspective in dealing with --
4 with our portfolio in Canada, which is -- we consider it
5 top cortile in the business, with compared to our US
6 onshore business, we see a -- currently about a 20
7 percent disadvantage on finding and development costs
8 versus what we're seeing in the US. That's very real.

9 Of course, the strengthening of the US
10 dollar or the -- sorry, the strengthening of the Canadian
11 dollar -- perhaps the weakening of the US dollar is more
12 appropriate -- over the last number of years has also
13 degraded the competitiveness of the Canadian and Alberta
14 oil patch. And certainly the additive burden asso -- and
15 uncertainty associated with the Federal and provincial
16 initiatives are only going to widen this gap out.

17 So what conclusions can -- can we draw?
18 From a Devon Canada perspective, the conventional
19 business in Alberta is uncompetitive in its current state
20 and that's from our perspective, that's reflected in a
21 cap. ex. reduction or capital expenditures reductions
22 that we've seen in 2007 as compared to 2006; about 15
23 percent.

24 The skeptics in the room would say, well,
25 why are you still investing? Good question. Well, we

1 continue to invest in Alberta, albeit at a reduced pace
2 because we do believe in the long term resource potential
3 of the basin. There is -- its -- and I am an Albertan
4 been -- lived here for twenty-five (25) years. I'm a
5 strong believer that we have an excellent asset base in
6 this province and -- and there's -- there's a lot more to
7 be -- to be gained as we move forward, both through
8 technology -- plattification (phonetic) of technology and
9 -- and just good ingenuity.

10 However, in the long term we need a
11 business environment that is conducive to pursuing these
12 opportunities. And these are just the -- the practical
13 aspects of it from -- from -- from my perspective. We,
14 as a business, continue to invest in Alberta because we
15 think that over time things will level out; either the
16 cost structure comes down or -- or -- well, it's probably
17 mostly to do with the -- the cost structure at this point
18 or the royalty structure.

19 We think that the business will become
20 competitive over time and that's why we continue to
21 invest. We're not prepared to -- to pull out of the
22 province at this juncture. However, you know, I've -- as
23 probably most -- many of us in this room have, we've
24 ridden the cycles in this business, they go up and they
25 go down, in the long term, however, if we see things

1 continuing as they are then something's got to give, and
2 it will certainly lead to reduced investment from our
3 perspective as -- as we move forward.

4 And that is it for me, so thank you -- I'm
5 close to the end of my time. Thank you for the
6 opportunity to speak.

7 THE CHAIRPERSON: Thank you, sir. A few
8 questions, if you will?

9 MR. CHRIS SEASONS: Sure.

10 THE CHAIRPERSON: Judith...?
11

12 QUESTIONS BY BOARD:

13 MS. JUDITH DWARKIN: Thank you. Thanks
14 for your perspective on life. Do you have any --

15 MR. CHRIS SEASONS: Business anyway.

16 MS. JUDITH DWARKIN: Life as a business,
17 business as a life. Any particular recommendations with
18 respect to the conventional oil and gas regime, the coal
19 bed methane -- coal bed methane treatment or EOR in
20 Alberta.

21 MR. CHRIS SEASONS: It's a -- it's a
22 broad question. I think you probably have to first
23 define the question, what is a -- what is a fair take for
24 Alberta which is, I think, what you're -- one of the key
25 reasons this panel's been struck -- and that depends on

1 whether you're looking at -- you have to look -- not only
2 combine the rate of take that the province has, but also
3 the level of activity and the actual absolute dollars
4 that are coming into the province.

5 Obviously, the higher the rate of the
6 take, eventually the lower the investment will become and
7 the lower the abs - absolute dollars that come in the --
8 the province.

9 I think CAPP has -- Pierre Alvarez
10 yesterday gave a good overview of the competitiveness of
11 this basin and used external data to support that. I'm
12 in agreement with those -- his observations. I think
13 that there are -- there is a fair take at this point in
14 time. I wouldn't suggest changing it, with regards to --
15 and I suppose that's not going to come to -- to some of
16 the other speakers in the room as -- as a surprise coming
17 from a oil patch person.

18 As to the EOR business, when we start
19 talking around to CO2 sequestration and that -- which
20 probably is not part of this -- this panel's permit --
21 certainly there probably is room to discuss ways to -- to
22 -- to start in -- providing some incentive for greater
23 sequestration of CO2.

24 MS. JUDITH DWARKIN: Just, I have a
25 followup question.

1 THE CHAIRPERSON: Yes?

2 MS. JUDITH DWARKIN: A followup on that,
3 your comment on the CO2. One of our presenters yesterday
4 gave us his opinion on the potential incremental recovery
5 from CO2 miscible floods --

6 MR. CHRIS SEASONS: Mm-hm.

7 MS. JUDITH DWARKIN: -- and what is
8 yours, with respect to the basin?

9 MR. CHRIS SEASONS: Well, a number of,
10 you know -- right now in -- in Alberta I think there's
11 only one (1) commercial CO2 pilot. Obviously in
12 Saskatchewan there are a couple of very successful CO2
13 field implementation projects that are going ahead in
14 Midale and Weyburn. The -- the types of fields -- and
15 I'll speak to ours, Swan Hills -- there's over a billion
16 barrels of oil in place and if you can increase the
17 recovery factor by a couple of percentage points that
18 obviously a very large prize.

19 The costs, of course, are -- are -- are
20 key and the infrastructure associated with getting CO2 is
21 -- in the area is -- is the real challenge, in terms of
22 the cost piece of it. So the prize is large.

23 MS. JUDITH DWARKIN: Thank you.

24 THE CHAIRPERSON: Evan...?

25 MR. EVAN CHRAPKO: Thanks for the

1 presentation. On the second last slide, the last point
2 you just -- you mention the additive burden and
3 uncertainty associated with Federal and provincial
4 initiatives.

5 Percentage-wise or dollar-wise what
6 factor, if any, does Devon apply to provincial, just the
7 provincial, initiatives in this regard? In other words,
8 how do quantify this burden?

9 MR. CHRIS SEASONS: That's very tough to
10 -- to quantify, Evan, and -- and specifically to date, I
11 mean, a number of people have mentioned this today and
12 I'm sure they did yesterday, one of the reasons that --
13 that Alberta is an attractive investment -- a place for
14 investment, is the political and fiscal certainty
15 associated with the province.

16 And when you look at one (1) of the slides
17 that CAPP presented yesterday comparing the
18 competitiveness of Alberta or Canada, versus other
19 aspects of the world, it was last or second last on that
20 chart, and the obvious reasons why people are still
21 putting -- or obvious questions, why are people still
22 putting money into it, and the reason being that, indeed,
23 this is -- there's a lot more certainty here than other
24 places in the world.

25 So, don't have an absolute number for you

1 in terms of how we would quantify that; it's more of a
2 gut feel. And it's -- it's -- as a number of people talk
3 about it, it's a combination of a variety of factors.

4 On the Federal side of things we saw a
5 change on the oil sands business, which I haven't touched
6 on today; on the ACCA, combine that with other factors
7 that are in the -- in the mix and it all starts to add up
8 and has a cumulative impact on investment perspectives.

9 THE CHAIRPERSON: Ken...?

10 MR. KEN MCKENZIE: Yeah, I was going to
11 ask you how you compared the policy uncertainty here,
12 relative to Azerbaijan, but I won't ask you that. I
13 think you answered the --

14 MR. CHRIS SEASONS: Actually, Azerbaijan
15 has been pret -- quite stable for us.

16 MR. KEN MCKENZIE: Hm, interesting.
17 Okay. Could I just pursue this line of questioning a
18 little bit more?

19 You did talk about costs going up in -- in
20 Alberta relative to US onshore -- and I -- I agree with
21 you that that's a relative comparison -- and due to the
22 increase in the cost structure; and you mentioned a
23 figure of 20 percent disadvantage in F&D.

24 What's driving that in Alberta vis-a-vis
25 onshore US? What are the different factors that are at

1 work here?

2 MR. CHRIS SEASONS: Well, there are a
3 variety of things that we have a tough time actually
4 changing for Alberta. One is winter access; winter only
5 operations, you're firing up oilers when you run rigs,
6 whereas if you're working in Texas you don't have issues
7 like that. So it adds to cost structure --

8 MR. KEN MCKENZIE: So it's simply higher
9 energy costs?

10 MR. CHRIS SEASONS: High -- higher energy
11 costs, remoteness of the business --

12 MR. KEN MCKENZIE: Which hasn't changed--

13 MR. CHRIS SEASONS: Which --

14 MR. KEN MCKENZIE: -- relative to the US
15 and then --

16 MR. CHRIS SEASONS: No, it hasn't, but
17 what we've seen is -- is the level of activity has come
18 up and as well as the level of activity in the oil sands
19 with those two (2) together. I think it's -- nobody in
20 this room would -- would disagree with the comment about
21 a superheated economy, and as compared to Oklahoma City
22 or Houston, I can't say I saw -- I've seen any signs in
23 Houston recently advertising a thousand dollar (\$1,000)
24 retention bonus at 7-11.

25 So just the labour -- the labour force.

1 We've got 3 million or 3.2 million people in this
2 province and for the size on investment associated with
3 it, I think relative to the US market it --

4 MR. KEN MCKENZIE: Mm-hm.

5 MR. CHRIS SEASONS: -- it just charges
6 that economy up that much more.

7 MR. KEN MCKENZIE: So labour costs are a
8 big part of it?

9 MR. CHRIS SEASONS: Labour costs are a
10 big part of it indeed.

11 MR. KEN MCKENZIE: Okay.

12 MR. CHRIS SEASONS: I think on -- on a --
13 on a day-rate basis if you compare a rig to rig, not much
14 difference in -- in actual costs, but when you actually
15 add in the efficiencies and the -- the issues associated
16 with how long it takes to get a well drilled versus the
17 US --

18 MR. KEN MCKENZIE: Mm-hm.

19 MR. CHRIS SEASONS: -- I think that just
20 drives that cost up that much more.

21 MR. KEN MCKENZIE: And we're talking
22 mostly about conventional today, but you also have some
23 oil sand --

24 MR. CHRIS SEASONS: Yes, we do.

25 MR. KEN MCKENZIE: -- activities as well.

1 MR. CHRIS SEASONS: Mm-hm.

2 MR. KEN MCKENZIE: What about the cost
3 issues in -- in that regard?

4 MR. CHRIS SEASONS: Well, the best way I
5 -- I characterize the cost issues for us is, as I said,
6 we're just in the final throes of finishing a SAGD
7 project, thirty-five (35,000) thousand barrel a day
8 project, at -- in the Conklin area, called Jackfish.

9 We justified that project three and half
10 (3 1/2) years ago to our board on twenty-four (\$24)
11 dollar oil, WTI oil. Depending on what your view of --
12 of long-term oil is, let's say it's between fifty (\$50)
13 and sixty (\$60) dollars a barrel, as we look at the
14 sister project to this which is a cookie cutter project,
15 the rate of return in the same, within 1 percent --

16 MR. KEN MCKENZIE: Mm-hm.

17 MR. CHRIS SEASONS: -- of what it was at
18 twenty-four (\$24) dollar WTI oil.

19 MR. KEN MCKENZIE: Yeah, so cost --

20 MR. CHRIS SEASONS: And that's a
21 functional cost.

22 MR. KEN MCKENZIE: I mean, of course, the
23 interesting aspect of the Alberta oil sands regime is
24 that we actually take account of increasing costs --

25 MR. CHRIS SEASONS: Right.

1 MR. KEN MCKENZIE: -- and the 25 percent
2 net payout.

3 MR. CHRIS SEASONS: Right.

4 MR. KEN MCKENZIE: So we've heard from
5 several oil companies that -- that oil sands costs have
6 increased and that that somehow justifies lower royalty
7 rates or at least not increase in royalty rates but, in
8 fact, it's irrelevant because we only collect the net
9 royalty after costs have been --

10 MR. CHRIS SEASONS: Right.

11 MR. KEN MCKENZIE: -- have been -- have
12 been recovered. I mean, would you agree with that
13 assessment or am I missing something?

14 MR. CHRIS SEASONS: Well, no I'd -- and I
15 haven't prepared a --

16 MR. KEN MCKENZIE: Yeah.

17 MR. CHRIS SEASONS: -- detailed analysis
18 of that. I wasn't prepared to talk to it today and there
19 -- there -- there are those who are probably better to --

20 MR. KEN MCKENZIE: Okay.

21 MR. CHRIS SEASONS: -- versed in talking
22 about it, but, you know, just running the -- the base
23 economics, I think there -- there is -- there has been a
24 perception that the growth in -- in the oil prices are
25 all -- all go to the bottom line.

1 A couple of other things that go into it--

2 MR. KEN MCKENZIE: No, no. You're
3 missing my point. I mean, I --

4 MR. CHRIS SEASONS: No, I -- I understand
5 the -- I understand that, I'm just going to that, sorry.
6 The -- the impos -- the impli --

7 THE CHAIRPERSON: We are running out of
8 time, so I have got to move the question down to the --

9 MR. CHRIS SEASONS: Oh, okay.

10 THE CHAIRPERSON: -- other end of the
11 table.

12 MR. CHRIS SEASONS: Input costs on -- on
13 gas and other things have also --

14 MR. KEN MCKENZIE: Yeah, but they're
15 deductible for royalty purposes.

16 THE CHAIRPERSON: Andre...?

17 MR. ANDRE PLOURDE: Thank you. Thanks
18 for you presentation and thanks for the material. I've
19 had a quick look at it, I'll look at it in more detail
20 later on.

21 I want to pick up on something you said as
22 you close your remarks, that essentially you felt that
23 Alberta might not be competitive now, the conventional
24 oil and gas business might not be competitive now, but
25 you were sticking around because you thought down the

1 road the cost structure would -- would fall and be
2 competitive again.

3 Is it fair for me to conclude from that
4 that this is, therefore, not a geology problem?

5 MR. CHRIS SEASONS: Well, it's -- it's
6 clear that the basin is not yielding the same quality of
7 prospects or new fields that it did ten (10) years ago
8 and -- and I think you've seen data that shows how
9 initial oil rates have declined and -- and reserves per
10 well have declined over time, and we're clearly going
11 towards few -- smaller and smaller prospects as -- as we
12 move forward.

13 Having said that, technology evolves et
14 cetera, so, I mean, we're -- we're quite encouraged by
15 the prospectivity of the basin as a whole, which is one
16 of the reasons we're -- we -- we are sticking around.
17 Now, obviously we have to -- we have to come up with more
18 imaginative ways as well to get our costs down and access
19 those reserves more effectively.

20 MR. ANDRE PLOURDE: But in comparison to
21 the US --

22 MR. CHRIS SEASONS: Yes.

23 MR. ANDRE PLOURDE: -- for example, this
24 is not a geology issue?

25 MR. CHRIS SEASONS: No, I wouldn't say

1 that.

2 MR. ANDRE PLOURDE: Okay. Great, thanks.
3 When you go back to -- I'm going to go back to the 20
4 percent cost difference in -- between Alberta and onshore
5 US --

6 MR. CHRIS SEASONS: Right.

7 MR. ANDRE PLOURDE: -- that you -- that
8 you mention. How much of that do you think is due to the
9 royalty and fiscal structure?

10 MR. CHRIS SEASONS: Not a whole lot --

11 MR. ANDRE PLOURDE: No? Okay.

12 MR. CHRIS SEASONS: -- and I think you
13 have to roll in all the aspects of it, not only just the
14 straight royalty but taxes and --

15 MR. ANDRE PLOURDE: Right.

16 MR. CHRIS SEASONS: -- and the whole
17 situation. I think it's pretty comparable, myself, to
18 what we have in the US --

19 MR. ANDRE PLOURDE: Okay.

20 MR. CHRIS SEASONS: -- where we operate.

21 MR. ANDRE PLOURDE: And -- and when you
22 talk about that, you include bonus bids?

23 MR. CHRIS SEASONS: Yes.

24 MR. ANDRE PLOURDE: Okay. Great. Thank
25 you.

1 MR. CHRIS SEASONS: The land system is
2 different down there.

3 MR. ANDRE PLOURDE: I understand, but
4 just in terms of -- but as you said, the key thing is the
5 comparison between full package/full package.

6 MR. CHRIS SEASONS: Right.

7 MR. ANDRE PLOURDE: And here bonus bids
8 are in the package --

9 MR. CHRIS SEASONS: Right.

10 MR. ANDRE PLOURDE: -- even if they're
11 not over there.

12 MR. CHRIS SEASONS: Correct.

13 MR. ANDRE PLOURDE: Okay. Great. Thank
14 you.

15 THE CHAIRPERSON: Sam...?

16 MR. SAM SPANGLET: Thanks, Chris.

17 Question, I thought I'm not going to ask you today, but I
18 have to.

19 MR. CHRIS SEASONS: Uh oh.

20 MR. SAM SPANGLET: No, you'll know
21 exactly where I'm going. I -- I keep hearing about the
22 cost structure in Alberta and it's going up and I -- I
23 know first hand that it is. Question to you is:

24 Who do you think created it; the increase
25 in cost structure?

1 MR. CHRIS SEASONS: Well, I think to some
2 degree we've been a victim of our own success in the --

3 MR. SAM SPANGLET: I agree. The first
4 time I got a real answer.

5 MR. CHRIS SEASONS: Well --

6 MR. SAM SPANGLET: Thank you.

7 MR. CHRIS SEASONS: Shall I stop there?

8 MR. SAM SPANGLET: No. This is it
9 because I -- okay. And --

10 THE CHAIRPERSON: I will ask another
11 question and maybe you can answer.

12 MR. CHRIS SEASONS: Okay.

13 THE CHAIRPERSON: First thing, you talked
14 about a royalty regime or a fiscal system that has a
15 balance, that the return to the industry is profitable,
16 and also the fair share for Albertans.

17 Can you share with us what the hurdle rate
18 is for Devon, a reasonable rate of return that your
19 shareholders entrust you with or...?

20 MR. CHRIS SEASONS: It depends on -- it
21 depends on the project and the risk portfolio associated
22 with it. I would say when I look at the oil sands that
23 our rate of return threshold is lower than -- than
24 conventional oil and gas exploration. And somebody
25 earlier today alluded to the fact that the oil's there,

1 it is.

2 There is some technical risk associated
3 with it; there's a lot more commercial risk associated
4 with it.

5 In general, we're looking for a 15 percent
6 after tax rate of return. Now, I will also say though if
7 you at the -- the -- the long-term history of the oil and
8 gas industry it's not stellar in achieving that. In --
9 for the most of the history of the oil patch, certainly
10 the twenty-five (25) years I've been in it, it's probably
11 more like 5 percent and the economists in the room could
12 -- could probably give you better data on that, but
13 that's the kind of information I've seen.

14 THE CHAIRPERSON: Okay. And second
15 question I had, similar to what Sam has, and very simply:

16 Does the rate of development for the oil
17 sands impact the costs of your conventional oil and gas?

18 MR. CHRIS SEASONS: Oh, certainly. I
19 mean that --

20 THE CHAIRPERSON: An example?

21 MR. CHRIS SEASONS: -- a welder is a
22 welder and they have the ability to move between Grande
23 Prairie and -- and Fort McMurray, so it -- it trickles
24 through to the whole business. I think it trickles
25 through to -- to the retail business in Edmonton too.

1 THE CHAIRPERSON: Okay.

2 MR. CHRIS SEASONS: So I think they are -
3 - they are all linked. And I also think that it will
4 eventually be self-regulating; that while people may not
5 like it, we are in the business to generate a profit. We
6 have shareholders who invest in us to realize a profit
7 and we all have RRSP's and hope to retire on those one
8 day. So I -- we're not going to charge down a path that,
9 in the long-term view, would show us losing money --

10 THE CHAIRPERSON: Okay.

11 MR. CHRIS SEASONS: -- and I think that
12 will reflect to the --

13 THE CHAIRPERSON: Thank you very much for
14 your presentation today.

15 MR. CHRIS SEASONS: You're welcome.

16 THE CHAIRPERSON: That is very helpful.

17 MR. CHRIS SEASONS: Thanks.

18 THE CHAIRPERSON: Ladies and gentlemen,
19 the logistics have just informed me that that is it for
20 this morning. We are going to come back this afternoon
21 at 1:30 where we have seven (7) people lined up for
22 presentations, so thank you very much for attending this
23 morning.

24

25 --- Upon recessing at 11:35 a.m.

1 --- Upon resuming at 1:26 p.m.

2

3 THE CHAIRPERSON: Good afternoon, ladies
4 and gentlemen, and welcome everyone. And on behalf of
5 the Royalty Review Panel, thank you for your interest in
6 Alberta's royalty and tax regimes. Your input is a very,
7 very important part of our work and we appreciate your
8 time and efforts and your submissions.

9 I would like to introduce the panel for
10 you. On my far right is Ken McKenzie; next is Evan
11 Chrapko; followed by Judith Dwarkin. I'm Bill Hunter.
12 This is Sam Spanglet, Andre Plourde and a very studious
13 young man that's going to help the presenters with time
14 management.

15 A couple of housekeeping opportunities.
16 Each individual presenter will be allotted five (5)
17 minutes, followed by an opportunity for the panel to ask
18 questions of clarification. At the same time, each
19 organization will be allotted ten (10) minutes and,
20 again, the panel will take the opportunity to ask
21 questions.

22 If you have brought a written submission
23 with you and you would like to leave it with us, we have
24 a secretariate desk in the back corner or at the
25 registration desk outside. If you haven't brought a

1 submission and you would like to, please go to our
2 website albertaroyaltyreview.ca and there's a mechanism
3 of how you can make your submissions. And I might remind
4 you that public contributions end June 22nd.

5 Now, for the West Jet opportunity. We
6 have two (2) exit doors at the back and two (2) exit
7 doors behind me. In case of an emergency, please
8 familiarize yourself with the closest exit, thank you.
9 While the proceedings are on, I would appreciate it if
10 you would shut off your phones, your cell phones and your
11 Blackberrys so that we don't have any interventions with
12 the opportunity for the exchange.

13 The proceedings are being transcribed;
14 that does two (2) things for us: one, it allows the
15 panel to capture accurately the exchange in the question
16 period but, most importantly, it allows us to put it on
17 our website so that all Albertans can participate in the
18 exchange that we're having over these three (3) days.

19 If there's any of the media here with us
20 today, I'd be happy to speak with you at the first
21 opportune break on behalf of the panel, but I do ask that
22 you respect the space of the panel and the presenters
23 during the proceedings.

24 Again, on behalf of the panel and all
25 Albertans, thank you very much for attending today.

1 Our first opportunity would be to hear
2 from Mr. Schmidt from Laricina Energy. If you're here,
3 sir...? Welcome.

4

5 PRESENTATION BY LARICINA ENERGY:

6 MR. GLEN SCHMIDT: So the material I
7 brought with me is just a very brief set of slides to
8 touch on the points, with a letter and a small summary on
9 who Laricina is as a company.

10 THE CHAIRPERSON: Very good. So it's all
11 yours.

12 MR. GLEN SCHMIDT: Okay, well thank you.
13 I appreciate the opportunity to provide the perspective
14 of Laricina myself on the -- to the Royalty Review
15 committee. Our perspective, if you turn to the second
16 slide, is -- is a -- an oil sands company, but an
17 emerging one.

18 We're a company that was founded in 2005
19 with some of the members from the Deer Creek Company that
20 was acquired by Total. Our focus this time is very much
21 on the in situ side of the business and, if anything,
22 really a technical bent on both newer formations, but
23 some ideas with respect to improving extraction as it
24 relates to the in situ business.

25 Now in terms of the dimensions of getting

1 involved, we have raised about 200 million in private
2 capital to date and have established an initial land
3 position in some of those new formations beyond the
4 McMurray and are advancing to field prototypes. So, as
5 it relates to the -- the technical component, Laricina is
6 very much focussed on in situ and changes to how we get
7 it out of the ground.

8 My own background is described on slide 3.
9 I'm a native Calgarian. I got my engineering degree from
10 U of C and my business degree there, as well. What may
11 be a little bit unique in '81, I was hired by a company
12 called Getty Oil to work on miscible floods in the West
13 Pembina and what drove that -- in fact, what drove an
14 opportunity to get a job was the 4.2 royalty structure,
15 what had -- which has or had many of the features that
16 you see within the oil sands structure.

17 And it, if anything, as it relates to the
18 technology at that time helped drive Alberta forward as a
19 leader in miscible flood technology. And I think you'll
20 see that same opportunity on the oil sands.

21 We do support, on slide 4, the review of
22 the panel and, clearly, in our own business we look at
23 what exists, costs or otherwise, on a periodic basis.
24 And we think it does provide an opportunity and -- and
25 probably the first bullet mean -- somewhat referring to

1 4.2, is to acknowledge some of the success -- successes
2 of the -- the program because I think there have been
3 some and I think the government has shown some good
4 foresight in anticipating some of the characteristics of
5 the structure and what it might create. Clearly, there
6 are things that either need to be reaffirmed, confirmed
7 or perhaps changed.

8 In terms of the successes on the next
9 slide, you've seen a transition in the oil sands. The
10 McMurray was a formation that really started with mining
11 and we've broaden from there, so what was dormant is now
12 transforming itself into production and that is a result
13 of the program.

14 It doesn't take very long to look back at
15 Imperial, Suncor and Syncrude to see three (3) companies
16 in the oil sands business. Well, now there's more than
17 twenty (20) and there's more than the McMurray formation,
18 more than the Clearwater formation, more than the
19 Bluesky.

20 You're seeing the advancement in the
21 carbonates and we are, though one (1) of the smaller
22 players, one (1) that is now actively participating in
23 advancing that formation.

24 The success then is, I think in addition,
25 that we're an Alberta founded company. It's a little bit

1 odd given the size of the capital, but we're a junior
2 player; we're not a multi national and the oil sands
3 structure as it exists has provided that opportunity for
4 us to participate.

5 The attributes is, at least as we see them
6 on the next slide, there are three (3) that, we believed,
7 have helped provide that opportunity for us. Clearly,
8 certainty and stability are important; that is what
9 allows us to provide capital, but when I talked about
10 some of the formations, and there are several, and there
11 are several characteristics and several elements to
12 technology, you have to have a flexible structure.

13 And the principle of net versus gross
14 provides an opportunity that the ability to pay concept
15 roles in. And the ability to pay is hard to determine
16 from a very top-down procedure. The royalty structure
17 itself allows the project itself to demonstrate it.

18 Then the principle of equity. When you
19 look at CAPP's presentation or the Department of Energy's
20 review on royalties, the split of fifty/fifty (50/50)
21 doesn't seem unreasonable in terms of the participation
22 on a post profit basis between Albertans and the
23 investor.

24 Turning to the next slide, one (1) of the
25 other features that we think is a -- a sus -- a success

1 think the drivers that we've talked about are important
2 as you review both the dimensions of the existing and,
3 perhaps, proposed changes, that it recognizes the various
4 sub sectors, it deals with the issues of stability and
5 certainty or flexibility.

6 I think the principle of ability to pay is
7 very important, but recognition of the economics, and
8 you've seen many of them, it is a margin business and at
9 the margin, when you push it, it can have impacts that
10 simply do not allow you to proceed.

11 And so the recommendations from, at least
12 our perspective, is that the generic oil -- oil royalty
13 strand -- stand structure has been working. It has had
14 some success and there's things to build on it.

15 That the importance is to maintain those
16 principles and that if an objective is to have an active
17 Alberta-based participation and -- and we can call it
18 tech sector, it has established that and the features
19 that you should seek to reinforce for that outcome would
20 entail many of those that you see within the current
21 regime.

22 That's all I had to say.

23 THE CHAIRPERSON: Thanks very much.

24 Ken...?

25

1 QUESTIONS BY BOARD:

2 MR. KEN MCKENZIE: Yeah, thanks for the
3 presentation. I'll have a chance to go over it more
4 carefully at our leisure. One (1) of the points that you
5 stressed throughout the -- the -- the talk was the
6 important distinction between gross versus net in terms
7 of the oil sands structure.

8 So in terms of how you view that tradeoff
9 if, for example, and this coming out of nowhere, that
10 there's more of a reliance on the gross, so it may be an
11 increase there and -- and moving it away from the net, in
12 your view, how -- how would you react to that sort of an
13 approach?

14 MR. GLEN SCHMIDT: Well, it'll be project
15 specific.

16 MR. KEN MCKENZIE: Right.

17 MR. GLEN SCHMIDT: Projects that are
18 remote necessarily have higher transportation costs --

19 MR. KEN MCKENZIE: Mm-hm.

20 MR. GLEN SCHMIDT: -- so what is the net?
21 Projects that have new technology attached to it will
22 have a different cost structure.

23 MR. KEN MCKENZIE: Right.

24 MR. GLEN SCHMIDT: Not all projects will
25 have -- will offer the same net back and if you apply the

1 same gross regime, you may have more marginal resource
2 that you would like to have as a revenue source that
3 simply can't be exploited.

4 MR. KEN MCKENZIE: Mm-hm, mm-hm. On the
5 technology side, this is very much a focus for your
6 company and -- and you indicated that the current
7 structure is amenable to that.

8 What about some of the corporate income
9 tax issues?

10 You talked about some of your expenditures
11 that you're spending on prototypes, for example, not
12 being eligible for the capital base for royalty purposes.

13 Are those sorts of expenditures receiving
14 federal R&D tax credits, for example, those sorts of
15 things?

16 MR. GLEN SCHMIDT: We will make
17 applications as appropriate, but the drive for us is not
18 -- I would say the government direct support. I mean, it
19 -- it helps us, it fosters us going forward.

20 MR. KEN MCKENZIE: Mm-hm.

21 MR. GLEN SCHMIDT: But if we were
22 developing a technology that could only advance for
23 government support, we probably had -- would have some
24 problems. What I mean by that is that it's not a tax
25 driven structure.

1 MR. KEN MCKENZIE: Mm-hm.

2 MR. GLEN SCHMIDT: It's not equivalent
3 to, say, an exploration well that sometimes is supported
4 by a flowthrough expenditure.

5 MR. KEN MCKENZIE: Mm-hm.

6 MR. GLEN SCHMIDT: It's -- it's not
7 driven on that basis.

8 MR. KEN MCKENZIE: Okay. So in terms of
9 -- I mean, the -- the -- the tax system, you're not
10 arguing that there should be that sort of government
11 support. There's a -- this is money you're willing to
12 spend upfront in order to --

13 MR. GLEN SCHMIDT: It's the purpose of
14 our business.

15 MR. KEN MCKENZIE: Right.

16 MR. GLEN SCHMIDT: If you're fostering
17 it, you want to support it --

18 MR. KEN MCKENZIE: Right.

19 MR. GLEN SCHMIDT: -- and I guess that's
20 up to the government to decide.

21 MR. KEN MCKENZIE: Right.

22 MR. GLEN SCHMIDT: If we have the
23 support, clearly, that allows us to do more things. If
24 we have no support, we can do fewer things.

25 MR. KEN MCKENZIE: That makes sense,

1 thank you.

2 THE CHAIRPERSON: Evan...?

3 MR. EVAN CHRAPKO: On the top of your
4 slide A you indicate that there might be a recognition of
5 multiple sub sectors. So, you specify mining in situ and
6 upgrading.

7 Can you be a little more detailed?

8 MR. GLEN SCHMIDT: The drivers with
9 respect to mining are different than with respect to in
10 situ.

11 MR. EVAN CHRAPKO: What would you
12 recommend?

13 MR. GLEN SCHMIDT: Again, the -- if
14 you're to modify the royalty structure, then you have to
15 be industry specific or sub sector specific, no different
16 than there have deep gas royalties to recognize the deep
17 gas exploration in the business.

18 The generic regime has the advantage
19 because of the net and gross that it accommodates those
20 differences. It allows the mining project to have its
21 characteristic and it allows the in situ project to have
22 its own. And because it's on a net basis it allows both,
23 in fact, to be supported by the same structure.

24 If you change it to a gross, for example,
25 then you may want to consider a gross royalty structure

1 specific by industry to meet the goals then. Because if
2 the goal -- or if the structure does not provide an
3 opportunity to support the business or to allow the
4 expenditure to take place, then it hasn't accomplished
5 what it was intended to do.

6 THE CHAIRPERSON: Judith...?

7 MS. JUDITH DWARKIN: Thanks. Thanks for
8 your presentation. I may be a bit slow this afternoon,
9 but you'll have to explain to me how the generic regime
10 results in a fifty/fifty (50/50) split of profit when the
11 -- the net profit interest is a twenty-five/seventy-five
12 (25/75) split and then the 1 percent -- are you including
13 taxes --

14 MR. GLEN SCHMIDT: I'm including taxes in
15 the overall.

16 MS. JUDITH DWARKIN: -- and the federal
17 government's share?

18 MR. GLEN SCHMIDT: That's correct. I'm
19 using it as a broader basket.

20 MS. JUDITH DWARKIN: So it's -- it's
21 Albertans and et al capturing 50 percent?

22 MR. GLEN SCHMIDT: Fair enough, yes.

23 MS. JUDITH DWARKIN: Thank you.

24 THE CHAIRPERSON: Sam...?

25 MR. SAM SPANGLET: Thanks, Glen.

1 Congratulations for forming a new company.

2 MR. GLEN SCHMIDT: Thank you.

3 MR. SAM SPANGLET: You a few times
4 mentioned multinationals. We're Albertans and we're not
5 a multinational. You said it about three (3) times.
6 What does it matter? Why did you say something -- what--

7 MR. GLEN SCHMIDT: Well, it --

8 MR. SAM SPANGLET: What should it -- what
9 impact should it make on -- on me?

10 MR. GLEN SCHMIDT: It provides an entire
11 different context. I spent a lot of time on the
12 conventional side of the business and post, say,
13 deregulation in the Western Accord in '84. You sponsored
14 a whole new business of small Alberta-based or Canadian
15 oil and gas companies.

16 They were the ones that did a wide range
17 of exploitation. In fact, when you saw Imperial, Gulf at
18 the time, divesting, it was the smaller companies that
19 were in fact investing. The other characteristic and the
20 difference between a multinational -- we look for things
21 that they don't. We compete in a different sector.

22 We would go after a resource scale that is
23 not the same. We are, in fact, exploiting some
24 formations that they wouldn't look at first. And so I
25 guess the distinguishing characteristic is we have a

1 different niche.

2 MR. SAM SPANGLET: But so was Deer
3 Creek --

4 MR. GLEN SCHMIDT: And so was Deer Creek,
5 that's correct.

6 MR. SAM SPANGLET: -- a multinational.

7 MR. GLEN SCHMIDT: That's correct.

8 MR. SAM SPANGLET: Thanks.

9 THE CHAIRPERSON: Andre...?

10 MR. ANDRE PLOURDE: Thanks. Thank you
11 for your presentation and thanks for the material. I'll
12 go through it a bit later. Two (2) questions, if I may.

13 I think it's on slide Number 6. You
14 talked about Albertans capturing 50 percent of the profit
15 - and we've sorted out what that means now - but from
16 each venture without capital at risk, right. But the
17 owners of the resource, if you think of it that way, do
18 have some form of capital at risk; the resource itself.

19 So what message should I get from this?
20 Is -- what kind of risk distribution do you see as
21 appropriate?

22 MR. GLEN SCHMIDT: Well, I think the --
23 the valuation or we'll call it the risk value of the
24 resource, one (1) of the advantages that Alberta has
25 through the Crown sales and a very competitive dynamic is

1 you have an ongoing and very competitive auction.

2 And by having an ongoing and very
3 competitive auction, the price -- the risk valued price
4 of that isn't set arbitrarily, it's set competitively.
5 And so the capital isn't at risk, the auction, if you
6 will, that the -- Alberta has granted to any of the
7 producers, conventional and otherwise, is set by auction.
8 So, it's a highly competitive process that helps ensure
9 that the government has -- is transparent and is --
10 captures an effective price as possible.

11 I think CAPP, within their presentation,
12 and while I'm an engineer and not an economist, the --
13 one (1) of the things that I thought was interesting was
14 the return on capital of western Canadian businesses
15 versus some of the internationals.

16 Because we're so competitive and because
17 we have a large number of players, we're always pushing
18 the margin. And by pushing the margin, we essentially
19 create a better pricing than of the value that you've
20 just discussed.

21 MR. ANDRE PLOURDE: But it's a one (1)
22 time return, so it's --

23 MR. GLEN SCHMIDT: It's not a one (1)
24 time return, it's a multi-fold return when -- and that --

25 MR. ANDRE PLOURDE: But not once you've

1 sold the property once, it's gone. That -- that part of
2 the thing is gone, the bid is done.

3 MR. GLEN SCHMIDT: No, I -- I wouldn't
4 say that because it -- it's multifaceted. I think Judith
5 corrected me when I did engineering accuracy and -- and
6 just kind of lumped things, but economic rent to the
7 provinces not only includes the Crown sales, it includes
8 the royalties. Obviously, it includes the taxes with
9 respect to employment. It includes things like the work
10 that we're doing in sponsoring and cosponsoring research
11 at the University of Calgary.

12 So there's -- there's a wide opportunity
13 with respect to how much rent is captured by the
14 province.

15 MR. ANDRE PLOURDE: But I -- I guess the
16 point I was trying to make is that there is risk being
17 borne by the owner of the resource.

18 MR. GLEN SCHMIDT: I'm not sure how.

19 MR. ANDRE PLOURDE: Oh, okay. Well, I'll
20 leave it at that.

21 The last slide that you have is you say
22 the generic oil sands royalty has and is working, it's a
23 success, let's build on it. How would you build on it?

24 What suggestions would you have for
25 building on it?

1 MR. GLEN SCHMIDT: I think the
2 government, and the panel, in looking at what are the
3 goals, so, do the goals include fostering a cross-section
4 of companies because the characteristics of the regime
5 are going to determine who participates. Under the
6 existing regime, there is room for a company such as
7 ourselves.

8 Would -- to -- to answer the question in a
9 different manner that Ken had asked, if the goal of the
10 government is to continue to enhance some of the work
11 that we're doing and does want to support it, would it
12 consider advancing the time frame at the expenditures
13 that we might have on prototypes be included.

14 So in -- in terms of either modifying,
15 enhancing the program, it's -- it's really asking which
16 goal is it you're seeking to support and then which
17 drivers that you want to -- or levers you want to pull to
18 create that support.

19 MR. ANDRE PLOURDE: Okay. Thank you.

20 THE CHAIRPERSON: I'm always wrestling
21 with the dynamics of a fair share and a balancing act
22 where we want to make sure that the industry has
23 profitability and Albertans get their fair share.

24 As a new player in the in situ field, can
25 I ask you what you set as a hurdle rate for your

1 development or what a reasonable rate of return would be
2 for your company in getting involved in in situ?

3 MR. GLEN SCHMIDT: Our cost to capital --
4 so I'll break the -- the question down in a number of
5 forms.

6 The first is as an early stage cap or
7 company, our cost to capital on an equity basis is at
8 least 20 percent and it changes over time. We have to
9 deliver the development of the project so that we can
10 achieve that type of return, otherwise, we simply can't
11 access the capital. As we mature, the projects mature,
12 the cost of capital goes down, I mean that's -- that's
13 just what happens.

14 In terms of the projects as we see it on a
15 reasonable oil price - and we use fifty dollars (\$50)
16 internally, some use fifty-five (55) - we have to achieve
17 a return certainly greater than 12 percent. If we don't
18 achieve a return greater than 12 percent on that basis --
19 that doesn't mean oil prices can't go higher; it also
20 means doesn't mean oil prices can't go lower, we're in
21 trouble.

22 THE CHAIRPERSON: Thank you very much,
23 Mr. Schmidt. We appreciate your presentation and your
24 contribution today.

25 MR. GLEN SCHMIDT: Thank you.

1 THE CHAIRPERSON: Next opportunity is to
2 hear from Mr. Buckee from Talisman if you're here, sir?

3

4 (BRIEF PAUSE)

5

6 THE CHAIRPERSON: Welcome.

7 MR. JIM BUCKEE: Thanks very much.

8

9 PRESENTATION BY TALISMAN ENERGY:

10 MR. JIM BUCKEE: My name is Jim Buckee.
11 With me is Kevin Draider. He is out Vice-President of
12 planning and if it gets really tricky, I'll ask him. So
13 thank you to the distinguished panel for hearing our
14 statement.

15 So Talisman is Alberta based with about
16 one-third of our production here. It was formed in 1992
17 when BP Canada decided -- then BP decided to exit because
18 the opportunities were not large enough and gas economics
19 were marginal.

20 So we tend to focus on large
21 opportunities, deep gas in particular, and approximately
22 90 percent of our North American cap ex is gas directed.
23 And by our estimates we are the fourth largest gas
24 producer in the province and we are -- we believe we are
25 the leading -- and by a number of statistics, the leading

1 deep gas explorer in the province.

2 So around the world we invest around \$4.8
3 billion and we invest in regimes that vary from royalty
4 to pure tax to PSCs. So we're in a good position to
5 compare and contrast various regimes and Alberta is
6 clearly not the most attractive, as we will see.

7 So in Talisman we rank projects. They
8 compete globally for capital based on anticipated
9 profitability and economic return which is like an EMV
10 divided by the investment. So approximately 35 percent
11 of our global spending is in Alberta down from 40 percent
12 in 2003 and 2004.

13 The Alberta royalty regime is structured
14 such that the province takes no risk and I heard the
15 point discussed earlier. For us, successes pay for non
16 successes while -- and while the Crown takes royalties
17 and taxes from the successes, it only bears a small
18 portion of the burden of failures through the lower
19 income tax.

20 Fiscal regimes in other maturing basins
21 such as the UK and somewhat Norway have moved to a tax-
22 only structure where this -- the oil stakeholders share
23 in full-cycle risks and benefits.

24 So, as shown on the last chart, our
25 largest single investment this year is in Alberta

1 foothills. So, I -- I put up this chart to show what --
2 a schematic of what we do. This is obviously -- this is,
3 obviously, a schematic but it's quite interesting. We
4 drill wells to, you know, 3,000-4,000 metres, although
5 this is just an outcrop and we try to hit the high
6 curvature part of a rollover and then we drill
7 horizontally along the crest.

8 So these wells are very prolific when they
9 work. They're very tough to do, to image seismically,
10 and it's very tough to find the crest. They're expensive
11 wells, 10 to \$25 million each, and they have a good
12 chance of finding gas but they're not always economic,
13 unfortunately.

14 So most of Alberta's future potential is
15 higher cost, deep or non-conventional with remaining
16 conventional gas pools being smaller and harder to find
17 and, therefore, requires a benign supportive and stable
18 fiscal regime to maximize future recoveries and revenues.

19 So I'll take some time on this because I
20 think it's a very telling chart here. This shows
21 Talisman's results in Alberta over the past four (4)
22 years, as well as annualized 1Q '07 results. The green
23 bars show operating cashflow which is slowly increasing.
24 The blue and yellow bars or dominantly the blue bars show
25 total capital investment.

1 The line -- the line represents the
2 percentage of total Talisman capital expended in Alberta.
3 As you can see, we've increased our spending quite
4 significantly both in absolute terms and as a percentage
5 of cash flow as costs have increased while activity
6 levels have merely been maintained. In fact, they have
7 now crossed and we are reinvesting more than our cash
8 flow. To us, a cash generator has become a cash user and
9 this is not sustainable.

10 Cashflow is reduced by, amongst other
11 things, payments to the Crown of 5 to \$700 million per
12 annum in royalties and lease bonuses and that's shown in
13 the red above.

14 As you know, we do not set the gas price.
15 The gas price is set in the Lower 48 whereas costs are
16 based on local market conditions. Cost levels have
17 increased quite -- quite substantially in last years --
18 in recent years due to many factors with increased base
19 maturity and tight industry conditions worldwide being
20 two (2) of the key contributors.

21 Over the period, also, the Canadian dollar
22 has gone from seventy-one (71) cents to eighty-five (85)
23 cents and now ninety-two (92) cents. Unfortunately, the
24 gas price is in US dollars and our costs are in "C"
25 dollars.

1 robust due to high oil netbacks, while returns in
2 Southeast Asia have been excellent as it is a very low-
3 cost environment. We invest in a lot of projects down to
4 our economic hurdle rates and if they don't make it, we
5 cut them.

6 As you can see from the chart on the red
7 compared to the blue and green, returns in Alberta have
8 been decent but certainly not excessive. This, of
9 course, begs the question as to why we continue to invest
10 so heavily in Alberta given high returns elsewhere and
11 I'm asked that question a lot.

12 The key reasons are: Drilling many wells
13 in Alberta leads to less lumpy and statistically more
14 predictable results than fewer larger projects
15 internationally. In addition, this approach is
16 consistent with our strategy of maintaining a balance
17 portfolio - natural gas domestically and oil internally
18 - since it's impossible to predict the relative future
19 direction of oil and natural gas prices, but we are
20 bullish on both.

21 And last, we are willing to accept lower
22 returns in Alberta, to a point, given the stable,
23 predictable and lower risk environment. Alberta has
24 never reneged on a fiscal agreement with producers and
25 any changes have always been accompanied by

1 grandfathering provisions.

2 Notwithstanding these reasons for
3 increased spending in Alberta, we actually decreased the
4 percentage of worldwide capital spending that is directed
5 to the province. In our view, this analysis, coupled
6 with the previous chart, strongly suggests that there is
7 little, if any, room for higher royalty rates.

8 This contention is consistent with the
9 recent actions of others. Many US companies have exited
10 as you know. Canadian companies have cut back spending.
11 Activity levels are down much more in Canada than the US
12 where royalty rates are lower and prices are higher
13 because they're closer to the market.

14 So in one form or another Talisman has
15 been here since 1953 and we see twenty-five (25) years of
16 gas opportunities with 25 TCF of contingent resources on
17 Talisman lands. The extent to which we exploit this
18 resource depends on higher prices and a reasonable
19 predictable and facilitating fiscal environment.
20 Ultimately, we have more shared interest with the Crown
21 than conflicting interests.

22 We strongly believe that the current
23 royalty regime has worked so far, although there are
24 strong currents as work -- at work such as the income
25 trust issues, struggling junior sector, and US retreat.

1 So the current regime has contributed to
2 unprecedented prosperity, the Alberta advantage, a
3 multiplier of effect on top of the \$45 billion of annual
4 capital investment. Head offices have increased and
5 expanded the intellectual capital of the province. We
6 also have more high-paying jobs for engineers,
7 accountants, lawyers, et cetera, even the commoners.

8 THE CHAIRPERSON: Mr. Buckee, have you
9 got a closing two (2) sentences? Your time is up.

10 MR. JIM BUCKEE: Okay. I'm -- I'm about
11 here.

12 You will undoubtedly have heard of the
13 Laffer curve. You get zero percent royalty -- you get
14 zero -- 100 percent royalty. You also get zero. You
15 have to balance the activity against provincial take.

16 So I'd say, current regime has worked and
17 it's best left alone. Thank you.

18 THE CHAIRPERSON: Thank you, sir. If you
19 will, we'll have a few questions for you.

20 Sam...?

21

22 QUESTIONS BY BOARD:

23 MR. SAM SPANGLER: Good to see you.
24 Thanks for coming.

25 First of all, there's no question that

1 you've created a first class company.

2 MR. JIM BUCKEE: Thank you.

3 MR. SAM SPANGLET: Talisman congratulated
4 for this and your management team.

5 You mentioned at the outset that in the UK
6 and somewhat in Norway the com shares the risk -- the
7 company. Can you explain a little bit how it works?

8 MR. JIM BUCKEE: Okay. Well, Norway has
9 a very high marginal tax rate but you expense your
10 exploration wells immediately and if you don't have
11 revenue to cover it, they'll pay their share on capital
12 development. So you explore with twenty-two (22) cent
13 dollars.

14 In the -- the capital developments they
15 uplift by 30 percent and you can write the uplift off
16 over four (4) years and the base capital over six (6)
17 years. So in a manner of speaking, you always get a 30
18 percent rate of return.

19 The UK has modified its fiscal regime over
20 time to reflect the status of the basin. They started
21 out with royalty and then PRT and then they slowly wound
22 those back until it's a tax-only system. So, you're --
23 there's no -- there's no royalty that accrues to the
24 State with or without success.

25 MR. SAM SPANGLET: Maybe it's not a fair

1 question but I'll ask anyway.

2 What's your view about the oil sands
3 royalties?

4 MR. JIM BUCKEE: Well, I'm -- I can give
5 you my views on the oil sands. I'm happy to do so but
6 I'm not qualified to talk about royalty on the oil sands.
7 Okay.

8 MR. SAM SPANGLER: Okay.

9 MR. JIM BUCKEE: So my -- my view is
10 formed by coming here in 1979, looking at the oil sands
11 and at -- even at that time, the best acreage was taken
12 by Shell and Exxon for Exxon reads Syncrude, Imperial and
13 other manifestations.

14 When you move outside that, the reservoir
15 gets worse. You know, everything gets worse and the
16 economics get tougher. So by the time we came -- I came
17 here wearing a Talisman hat, in my view, the best acreage
18 was gone.

19 Secondly, when we look at mining and
20 upgrading, I have no skills. I don't know what do there.
21 It doesn't -- I can't add anything.

22 So then you came to the thermal and I
23 think the thermal's going to prove to be extremely
24 difficult and things work well when the reservoir's fine.
25 When the reservoir is not fine, they don't work well. We

1 had -- BP had experience of that at Wolf Lake and it was
2 that experience that led us to stay out.

3 So I would -- I would think not only is
4 the construction difficult but execution is going to be
5 very difficult.

6 THE CHAIRPERSON: Thank you. Ken...?

7 MR. KEN MCKENZIE: Yeah, I just want to
8 follow up on a point that Sam raised and -- and I
9 understand the answer you gave. This is the -- the risk
10 sharing idea. And -- and I understand your point that
11 the conventional gas royalty system in Alberta is a
12 gross-based system and, therefore, there's -- there's no
13 risk sharing in terms of capital costs.

14 You talked about the UK. Also Alaska's
15 moved towards a sort of a system where -- which is more
16 profit based.

17 There are several ways that you can go
18 about this but -- and -- and just so everybody's clear
19 here, I'm not advocating the system but let me bounce
20 this off you.

21 We eliminate conventional royalties
22 altogether and we impose instead a surtax on the
23 corporate income tax. So we now basically have a profit-
24 based royalty.

25 Is that the sort of system that you're

1 talking about here or is it one that is more oil sands-
2 type where we try to ring-fence projects and do the net
3 and -- what's -- what's your view on that?

4 MR. JIM BUCKEE: Okay. Well, you know,
5 ring fencing and so on is appropriate under certain
6 circumstances so you can't off-hand --

7 MR. KEN MCKENZIE: Yeah.

8 MR. JIM BUCKEE: -- you know, I would say
9 from the State meaning the Province -- the State's point
10 of view that --

11 MR. KEN MCKENZIE: Right.

12 MR. JIM BUCKEE: -- that's a sensible
13 thing to do if you're imposing any sort of taxation
14 scheme because you can get in all sorts of trouble
15 putting one (1) cost against another revenue stream.

16 MR. KEN MCKENZIE: Mm-hm.

17 MR. JIM BUCKEE: But yes, I think that
18 any royalty that is gross and doesn't participate in the
19 risk from -- from our perspective is less attractive than
20 one where it has a royalty that goes off the top.

21 When we talk about -- really, the risk to
22 the State you say -- you were discussing, you know, the
23 resource owner and risk. The resource owner risk is that
24 it stays in the ground; that, you know, resource in the
25 ground does nothing for anybody so the -- the resource

1 owner has to encourage -- set the -- the conditions such
2 that it encourages activity sufficient for your needs
3 and, you know, in the meantime meets our requirements for
4 our shareholders.

5 MR. KEN MCKENZIE: Yeah, thanks very
6 much.

7 THE CHAIRPERSON: Evan..?

8 MR. EVAN CHRAPKO: With reference to your
9 slide 5 an increase in capital expenditures of about half
10 a billion over a number of years but the percentage spent
11 in Alberta going down by, it looks like, 10 percent, that
12 suggests that there's been a dramatic increase in other
13 parts of the world; is that -- am I reading that
14 correctly?

15 MR. JIM BUCKEE: Yes.

16 MR. EVAN CHRAPKO: Yes.

17 MR. JIM BUCKEE: Yes, I mean our total --
18 the -- the push-in costs is everywhere; it's not only
19 here and it has been very dramatic in the North Sea and
20 it's -- but stabilizing and it's continuing in the Far
21 East.

22 So if your activity set is, you know,
23 somewhat constrained by people you have and so on, which
24 it is, then costs elsewhere have been going up as well.

25 MR. EVAN CHRAPKO: So then my follow-up

1 question is: How do you balance the -- the country
2 activity basket, this 4.7 billion, 4.8 billion in 2007
3 with reference to your Slide 6 if -- looking at it
4 simplistically, I would suggest Southeast Asia should
5 attract the bulk of that?

6 MR. JIM BUCKEE: That is true and it's a
7 comment that we get quite a lot but it's -- there's --
8 there's a -- a balance of forces at play. There's one,
9 prospectivity, the other's the fiscal terms, and the
10 other is the above-ground risk and we try and balance off
11 all these.

12 In principle, we rank things by, as I say,
13 EMV divided by investment. So, it's a capital efficiency
14 ranking and if it doesn't, you know -- and if things fall
15 off the bottom and, indeed, in 2002 when the gas price
16 dropped for a little bit we cut a lot of capital here in
17 Western Canada.

18 In the rest of the world, as I said, a lot
19 of the projects are lumpy and when you started you can't
20 stop, so, it's not as easy as -- as that.

21 MR. EVAN CHRAPKO: Thank you.

22 THE CHAIRPERSON: Judith...?

23 MS. JUDITH DWARKIN: Thank you. Thanks
24 for your presentation.

25 I want to ask you about the cost squeeze

1 that you've referenced in -- in the basin. Is it your
2 perception that these -- at least some of these costs are
3 cyclically high, that they will eventually come down?
4 They aren't going up indefinitely?

5 MR. JIM BUCKEE: Well, the -- the "C"
6 dollar, US dollar --

7 MS. JUDITH DWARKIN: That's a different
8 issue.

9 MR. JIM BUCKEE: -- you know, anybody
10 knows better than I do on that but that -- that is --
11 that's a big squeeze all by itself. We -- we're
12 traditionally in the deeper part of the basin and the rig
13 rates and so on haven't really gone up all that much.
14 Steel, line pipe, welding, all that sort of stuff has
15 increased dramatically and I'd say that's somewhat
16 cyclical.

17 A lot of the operating costs are of the
18 high energy costs played back, processing fees,
19 electrical, -- you know, cost of electricity and then
20 salaries. So I -- I -- as famously salaries and, you
21 know, downwardly an elastic, so, I think some elements
22 will be cyclical but a lot of it not.

23 The industry's still going -- is hot --
24 going hot in the Lower 48 and if -- if there's too big a
25 discrepancy on the surface prices, it'll go south.

1 MS. JUDITH DWARKIN: Mm-hm.

2 MR. JIM BUCKEE: So it'll tend to
3 arbitrage.

4 MS. JUDITH DWARKIN: Okay. Thank you.

5 THE CHAIRPERSON: Andre...?

6 MR. ANDRE PLOURDE: Thanks. You've made
7 -- thank you for your presentation.

8 You talked about royalty rates compared in
9 the US and -- and here but I think the package is
10 different in the US. If I understand this correctly,
11 there's all kinds of other royalty-like levies that are
12 charged in the US and not here; severance taxes, that
13 kind of thing.

14 So, do you think when you kind of put it
15 all together, the bids that look like royalties in Canada
16 and in the US, does it look more similar?

17 MR. JIM BUCKEE: There is -- there's also
18 this ad valorem --

19 MR. ANDRE PLOURDE: Yeah.

20 MR. JIM BUCKEE: -- tax that keeps sort
21 of going up all -- all the time.

22 MR. ANDRE PLOURDE: Yeah.

23 MR. JIM BUCKEE: Right at this moment the
24 -- the only informed thing I can say is that in
25 Appalachia, we're in New York State. We're at the

1 market, right?

2 MR. ANDRE PLOURDE: Right.

3 MR. JIM BUCKEE: And it's onshore and
4 relatively shallow, relatively prolific and we have very
5 low finding costs, thirty (30) cent operating costs and
6 we get, you know --

7 MR. KEVIN DRAIDER: NYMEX.

8 MR. JIM BUCKEE: -- market plus.

9 MR. KEVIN DRAIDER: NYMEX plus thirty-
10 five (35) cents.

11 MR. JIM BUCKEE: So it's true royalty
12 rates -- 12 1/2 percent in principle and but the other
13 ones are sneaking up.

14 MR. ANDRE PLOURDE: Right.

15 MR. JIM BUCKEE: So we don't have enough
16 operations elsewhere to give a good comparison.

17 MR. ANDRE PLOURDE: Okay. But I guess --
18 but the point was that the package comparison as opposed
19 to the royalty rate comparison is a useful way of
20 thinking about this?

21 MR. JIM BUCKEE: For our specific case
22 it's -- the US regime is plainly better, okay, but I --
23 I couldn't -- and I'm not in a position to answer to
24 somebody who's in mid con (phonetic), you know, --

25 MR. ANDRE PLOURDE: Right.

1 MR. JIM BUCKEE: -- and has been doing it
2 for twenty (20) years.

3 MR. ANDRE PLOURDE: But the US regime is
4 -- is better in the sense that the costs are lower; is
5 that right, not the --

6 MR. JIM BUCKEE: But the --

7 MR. ANDRE PLOURDE: -- government take is
8 -- is lower?

9 MR. JIM BUCKEE: -- the royalty rate is
10 an eighth as opposed to a quarter, you know, just at --

11 MR. ANDRE PLOURDE: Yeah.

12 MR. JIM BUCKEE: -- at the outset and --

13 MR. ANDRE PLOURDE: But you've got ad
14 valorem taxes in the US but not here?

15 MR. JIM BUCKEE: Yeah.

16 MR. ANDRE PLOURDE: Okay. All right.

17 MR. JIM BUCKEE: And ad valorem, as I've
18 said, just increases over time so -- but at the moment
19 I'm not in a position to say where -- you know, where it
20 all ends up.

21 MR. ANDRE PLOURDE: Exactly where it is?

22 Okay. Thanks.

23 One (1) more thing. In -- when you're
24 talking about -- I forgot. Sorry, I apologize. Thank
25 you. Sorry about that. Thank you.

1 THE CHAIRPERSON: It's an interesting
2 dynamic that we hear about costs and costs seem to
3 prohibit an extensive look at the royalty regime.

4 We heard this morning or from another
5 presenter that the rate of development in the oil sands,
6 for instance, does have cost implications on conventional
7 oil and gas; you name labour, steel, pipe, and a host of
8 other things.

9 And I think the royalty system looks after
10 the cost as a break-out on the side. So, I'm just
11 wondering, people are always throwing costs at us as a
12 huge sensitivity in our rationalizations around the
13 royalty regime and yet it almost appears to be self-
14 inflicted and I'm just trying to understand the dynamics
15 of how we do not share in the risk if we have no control
16 over the causes and impacts of your development and
17 letting the market drive the development.

18 MR. JIM BUCKEE: Okay. What -- what I'm
19 trying to say here is that your -- your job is to
20 maximize revenue for the -- for the province, right, and
21 the -- it's a delicate balance between, en -- you know,
22 encouraging activity and not encouraging activity.

23 At -- we don't make the costs either, all
24 right. They're -- they're largely made in the lower
25 forty-eight (48) and the exchange rate we don't make

1 either, so there's a lot of -- a lot of the money being
2 drained out of the system which is why, when I'm showing
3 that thing of our capital and cash flow crossing, for
4 whatever reason, the increasing costs or this royalty,
5 whatever, there isn't anything else to give.

6 And we're -- we're hoping the price goes
7 up, of gas. If it doesn't in -- in C dollars terms, if
8 it doesn't, we'll -- we'll cut activity, we have to.

9 MR. KEVIN DRAIDER: Can I add one (1)
10 thing? The other thing is, you know, we look at units
11 costs and it's not just that absolute costs are going up,
12 you know, industry inflation, it's that it's getting
13 tougher and tougher to find the resource, so, you know,
14 even if you took the cost of inflation out of the
15 equation, our finding and development costs would be
16 going up because we're finding smaller and smaller pools,
17 the basin is maturing. It's just a fact of life. It's
18 like, you know, there's nothing --

19 THE CHAIRPERSON: That's fine.

20 MR. KEVIN DRAIDER: -- that anybody could
21 do to control it --

22 THE CHAIRPERSON: And I am going to defer
23 to my closing picture for the last question. Okay.

24 MR. ANDRE PLOURDE: I've remembered what
25 I wanted to ask, so thank you for indulging me. The roy

1 -- the Alberta royalty system in conventional gas, a way
2 that is -- shares the price risk with the producer is
3 that the royalty rate changes as the price moves around.
4 All right.

5 MR. JIM BUCKEE: True.

6 MR. ANDRE PLOURDE: But in the US, for
7 example, the royalty rate is flat, irrespective of price
8 -- price movements.

9 Now, you -- if -- if I heard you
10 correctly, earlier on you said, well, there's not value
11 in terms of the -- the -- the province taking on some of
12 the risk, so are you suggesting we should prefer -- we
13 should -- that we should look at flat royalty rates that
14 are invariable to prices? For example, vary for a lot of
15 other things, so I don't want to complicate the
16 discussion, but is that what I should -- the -- a message
17 I should get from you?

18 MR. JIM BUCKEE: Okay. My main message
19 is, one way or another, costs are so high here that
20 there's, you know, the -- there's -- everybody reinvests
21 100 percent of the capital, so -- or, you know, more or
22 less of their cash flow and -- plus or minus, so if
23 there's less cash flow there's less -- less activity and
24 -- and so we get to the -- the Laffer type curve.

25 As to what sort of royalty regime I would

1 advocate, I would say less is better and I'd say, you
2 know, flat -- simplicity is a virtue and flat is better.
3 In practice, I think, given the sensitivity to price,
4 given where prices are, we're on a flat place anyway --

5 MR. ANDRE PLOURDE: Right. Yeah

6 THE CHAIRPERSON: Thank you very much,
7 gentlemen.

8 MR. JIM BUCKEE: Thank you.

9 THE CHAIRPERSON: We appreciate your
10 contribution through today's opportunity.

11 Next opportunity is to hear from Mr.
12 McLeod from BP, if you are here, sir. Welcome,
13 gentlemen, when you are ready.

14

15 PRESENTATION BY BP CANADA ENERGY:

16 MR. RANDY MCLEOD: Thank you. Thank you
17 and good afternoon, Mr. Chairman. I appreciate the
18 opportunity to speak with you and the panel today. My
19 name is Randy McLeod, I'm the President, CEO of BP Canada
20 Energy here in Calgary with responsibility to oversee all
21 of BP's operations in Canada.

22 BP Canada is part of the BP group of
23 companies and is Canada's leading integrated natural gas
24 value chain company. BP explores for, develops, produces
25 and processes natural gas in Canada, markets and trades

1 natural gas and its derivatives in Canadian and US
2 markets, served by Canadian natural gas.

3 BP Canada has one of the most, foremost,
4 natural gas liquid businesses in Canada and is active in
5 petrochemicals, power marketing and trading, crude oil
6 marketing and trading and the marketing of lubricants and
7 jet fuel. Headquartered in Calgary, BP's operation span
8 five (5) provinces and two (2) territories. We employ
9 just over fifteen hundred (1,500) people and we've been
10 an active in Canada since 1948 as an AMICO Heritage
11 Company.

12 Just to give you a little perspective on
13 our activities in Alberta, I would like to focus on a
14 couple areas. First is our royalty expenditure in
15 Alberta.

16 In 2006 our Crown royalty payments net of
17 the gas cost allowance amounted to 288 million. In 2006,
18 we also spent \$972 million in operating and capital
19 expenditures, so we are a significant contributor to the
20 Alberta economy.

21 Today I will give you BP's perspective on
22 this royalty review, especially with respect to natural
23 gas exploration and production here in Alberta. You'll
24 have heard from my peers at other companies about the
25 dangers of revising royalty schemes that have worked well

1 and continue to work well in developing conventional
2 resources, especially in a time of rising costs and
3 failing prices.

4 I don't intend to belabour the points
5 other companies will make; nor do I intend to speak to
6 oil sands as BP Canada does not have any unconventional
7 oil production.

8 However, please let me emphasize that BP
9 Canada believes there is no need for sweeping changes to
10 royalty regimes that are serving Albertans well in
11 generating a fair share for the government and citizens
12 of Alberta. Having said that, BP does believe that
13 occasional checkups to ensure that the royalty regimes
14 are working like they should are necessary and
15 beneficial.

16 Corporations undertake those sorts of
17 reviews all the time and so does Alberta Energy. I
18 believe the department does an exemplary job of
19 protecting the interests of Albertans in developing the
20 energy resources.

21 Today, I won't tell you what you should
22 not do rather I intend to layout BP -- what BP thinks you
23 should do to ensure that the natural gas exploration and
24 production business remains a vital contributor to
25 Alberta's prosperity long into the future.

1 First, I'd like to tell you about BP
2 Canada's exploration and production business. BP Canada
3 produces about 1/2 billion cubic feet of natural gas a
4 day through western Canadian facilities. We operate a
5 number of assets in northeast Alberta and along Alberta's
6 western border. These Alberta assets are exclusively
7 producing conventional gas reserves.

8 BP Canada's exploration focus, however, is
9 turning to the unconventional gas plays and we expect
10 this focus to continue into the future. Why is this?
11 Well, for one reason: Large conventional gas pools are
12 becoming harder and harder to find in the western basin.
13 According to Ziff Energy, western Canada's conventional
14 gas production peaked in 1998 at about 16.6 billion cubic
15 feet per day and has been declining slowly ever since.

16 In 1996, new gas wells produced on
17 average, 3/4s of a million cubic feet per day. In 2006,
18 that number has declined to 200,000 cubic feet per day.
19 A rate of decline averaging 7 percent per year.

20 Over the period from 2000 to 2005, gas
21 finding and developing costs have rose from an average of
22 a dollar, twenty (\$1.20) per thousand cubic feet to three
23 (\$3) dollars per thousand cubic feet while operating
24 costs have risen from sixty (60) cents to a dollar,
25 twenty-three (\$1.23) per cubic -- or per thousand cubic

1 feet.

2 For me, the average of four twenty-three
3 (\$4.23) per thousand cubic feet is a little scary, given
4 gas prices in the early part of this dec -- decade
5 averaged well below this value. Not only that, as we
6 know the four twenty-three (\$4.23) does not include
7 general and administrative costs and, obviously, doesn't
8 include taxes or royalties.

9 When you see the graphs showing flat
10 production profiles whether -- for the western basin over
11 the past few years, those flat profiles were only
12 achieved because of increasing unconventional gas
13 production, making up the decline over the conventional.
14 In 1998 there was essentially no unconventional gas being
15 produced in the western basin.

16 As of 2005, about 10 percent of the
17 western production was unconventional gas. Ziff Energy
18 forecasts by 2014 western Canadian gas production will be
19 14 billion cubic feet per day, 27 percent of which will
20 be from un -- unconventional gas.

21 Clearly, unconventional gas is going to be
22 an integral part of the basins' future. You can see from
23 the slides, the second and third slide I'm about to show
24 here, how unconventional gas production will grow between
25 now and 2014, and the next slide shows remaining

1 conventional gas resource in Alberta as compared to CBM
2 deep basin tight gas and shale gas.

3 Essentially, unconventional gas is
4 potentially five (5) times the remaining conventional gas
5 in place in Alberta.

6 There's one of -- that's one of the
7 reasons that BP Canada is interested in unconventional
8 gas exploration and production. Another is that
9 jurisdictions such as British Columbia recognize the need
10 to encourage -- encourage exploration for unconventional
11 resources. It put favourable tax and royalty schemes and
12 in some cases, other incentives in place to do that.

13 As an example, BP Canada is currently
14 working on a tight gas project in northeast BC which has
15 a potential to be a billion-dollar project. Both tight
16 gas and coal bed methane benefit from royalty and tax
17 regimes in BC that encourage this type of exploration.

18 BP's focus on unconventional gas plays is
19 not just limited to Canada. In North America we produce
20 almost 3 billion cubic feet of gas a day, two-thirds
21 (2/3s) of that is from coal bed, one-third (1/3) of that
22 from BN tight gas.

23 So given that our focus is increasingly on
24 unconventional plays, what will lead us to choose one
25 jurisdiction over the other? As you might expect, the

1 regulatory tax and royalty regimes and the stability of
2 those regimes are going to be of vital importance.

3 We also consider whether the system
4 encourages us to invest in new technologies. To be
5 honest, it is BP's opinion that the Alberta gas royalty
6 regime is a conventional regime in an increasingly
7 unconventional world.

8 There are -- there are two (2) programs
9 that are currently that might be viewed as encouraging
10 unconventional exploration. These are deep gas royalty
11 holiday program, which we all know is being phased out,
12 and the royalty adjustment program for deep marginal gas
13 wells.

14 There is another program that is not aimed
15 specifically at natural gas, but which could be very
16 helpful in the expansion of an unconventional gas
17 industry in Alberta and that is what we know as the
18 Innovative Energy Technologies Program, IETP. The IETP
19 program encourages projects that test our new recovery
20 methods in the field. The royalty reduction is provided
21 for up to 30 percent of incremental cost to a maximum of
22 10 million; while helpful, it is unlikely to be a
23 panacea.

24 Just to give you one (1) example, BP
25 Canada spent 100 million in technology in developing the

1 tight gas play I mentioned earlier in British Columbia.
2 If I look at BC in comparison to Alberta, I see a number
3 of royalty programs and other incentives in BC aimed at
4 encouraging activity in unconventional gas. I can tell
5 you that the BC government's actions have encourage B --
6 excuse me, BP to increase our focus on exploration in
7 British Columbia.

8 I mentioned earlier that BP spent 100
9 million on technology in this tight gas project. What
10 would -- what did we gain from that investment? Well,
11 right now we have the ability to achieve production rates
12 up to fifteen (15) times the average for a tight gas well
13 in Alberta.

14 Clearly we benefit, no doubt; however, the
15 Government of BC benefits too, with higher production,
16 they receive higher royalties and obviously taxes. Let's
17 be clear, BP is willing to risk capital on technology.
18 Risk is inherent in our business and we are used to
19 dealing with it.

20 Governments also recognize the risks that
21 companies like BP face and they often put in place
22 incentives to help offset those risks and encourage
23 development. For this reason, when governments consider
24 changing royalty regimes and perhaps adding additional
25 cost burdens to exploration and production, producers

1 start to examine the risk/reward tradeoffs in those
2 jurisdictions.

3 Therefore, it is possible should this
4 Board recommend changes that result in significant
5 additional cost burdens, important technologies that
6 could ensure Alberta continues as a robust producing
7 province may not be developed as soon as they should or
8 at all.

9 I'm going to reference my final slide
10 knowing we're short on time here and just show the price
11 differentials -- or excuse me, second from the last
12 slide.

13 And what I show here is actually the
14 difference between the lower forty-eight (48), United
15 States, and actually the Canadian rig activity. And what
16 you can see -- what you can see in the bars is the -- the
17 movement in the last year of activity moving to the lower
18 forty-eight (48) where -- where it's economically better
19 for investment.

20 THE CHAIRPERSON: Could I get you to
21 capture your final comments in two (2) sentences?

22 MR. RANDY MCLEOD: BP Canada recognizes
23 that you've been handed a challenging task. We believe
24 that the current royalty system as it applies to
25 conventional oil and gas production and bitumen

1 production provides Alberta its fair share of that
2 production and we are confident you agree.

3 We hope you'll also agree there's a need
4 to look out in the future and understand what it takes
5 for unconventional development.

6 THE CHAIRPERSON: Thank you, sir. Again,
7 if you will allow us a few questions.

8 MR. RANDY MCLEOD: Absolutely.

9 THE CHAIRPERSON: Judith...?
10

11 QUESTIONS BY BOARD:

12 MS. JUDITH DWARKIN: Thank you. Thank
13 you very much for your presentation. A couple of
14 questions. I'm not sure what to take away from this
15 slide.

16 I mean, I suppose one could say that the
17 drop in drilling activity in Canada over the last quarter
18 is a rational response to prices and costs or what
19 exactly did you want us to understand from that side by
20 side.

21 MR. RANDY MCLEOD: To -- to pull out of
22 this slide, if you look at the -- the blue line there,
23 that shows you the rig activity from last year.

24 MS. JUDITH DWARKIN: Mm-hm.

25 MR. RANDY MCLEOD: The solid bars

1 obviously are this year's activity.

2 MS. JUDITH DWARKIN: Hmm-hmm.

3 MR. RANDY MCLEOD: So year on year Canada
4 is -- is compared to the US is a lot lower.

5 MS. JUDITH DWARKIN: Mm-hm.

6 MR. RANDY MCLEOD: When you look at the
7 inflation between the US and Canada, it's -- it's fairly
8 close to one another --

9 MS. JUDITH DWARKIN: Mm-hm.

10 MR. RANDY MCLEOD: -- so you then have to
11 question, why do we see the declining decrease in Canada;
12 because the economics are more favourable on these
13 projects to be done on the lower forty-eight (48).

14 MS. JUDITH DWARKIN: Mm-hm. Okay. So
15 you're agreeing with me that it's -- what we're seeing is
16 a rational response to the price cost calculus in Canada,
17 decreased activity, noth -- with nothing else changed
18 relative to the lower forty-eight (48).

19 MR. RANDY MCLEOD: And -- and I also look
20 at the incentives you have to actually develop the pool,
21 so rather than go down just a cost avenue --

22 MS. JUDITH DWARKIN: Mm-hm.

23 MR. RANDY MCLEOD: -- you have to look at
24 the total package and say what are the incentives to
25 actually do the --

1 MS. JUDITH DWARKIN: Although they
2 haven't changed year over year. Well, I guess that's not
3 true. Never mind, I'll leave that one alone.

4 The -- your enthusiasm for the BC
5 treatment -- royalty treatment of unconventional gas, can
6 you, sort of, help us understand, is the -- the nature of
7 the resource, the unconventional resource, in British
8 Columbia similar to Alberta?

9 So we're -- you know, are you
10 suggesting that we look at similar types of royalty or
11 tax treatments to encourage unconventional or is there
12 something -- is there something different about our
13 resource base that perhaps means those kinds of programs
14 aren't applicable?

15 MR. RANDY MCLEOD: The way I'd look at
16 it, if you asked ourselves five (5) years ago, would we
17 be producing tight gas or coal bed methane gas, even --
18 even seven (7) years ago, we'd probably say no.

19 So when you look at the technology and the
20 investment it takes to actually open up these types of
21 plays, that challenge is increasing year on year, so as
22 you look forward -- it -- it's not so much the size of
23 the resource base, I think both Alberta and BC have
24 remarkable resource bases, it's actually what's the
25 incentive to actually access that resource and bring the

1 technology to develop it.

2 When you look at our project, we're
3 investing in some of these, 10 percent of our costs right
4 upfront are in technology alone.

5 MS. JUDITH DWARKIN: Thank you.

6 THE CHAIRPERSON: Evan...?

7 MR. EVAN CHRAPKO: More comment based on
8 just extending from Judith's question on the slides that
9 are up right now.

10 I'm seeing consistency on a seasonal basis
11 and if the scales were normalised on the left also a
12 consistency of between two (2) or three hundred (300)
13 rigs as a delta in both countries.

14 Would that be fair to say? So -- so is
15 this a foreign currency demonstration?

16 MR. RANDY MCLEOD: No, I would not say
17 that. When you look at it if you try to normalize a bit
18 the significance is that the green bars are below the --

19 MR. EVAN CHRAPKO: Yeah.

20 MR. RANDY MCLEOD: -- blue line --

21 MR. EVAN CHRAPKO: So -- so in currency--

22 MR. RANDY MCLEOD: -- so I wouldn't try -
23 - I wouldn't try to compare the two (2) and say they're
24 equal.

25 MR. EVAN CHRAPKO: The change is --

1 MR. RANDY MCLEOD: And I wouldn't -- I
2 would say, foreign currency is a factor in here --

3 MR. EVAN CHRAPKO: Yeah.

4 MR. RANDY MCLEOD: -- but not the factor.

5 MR. EVAN CHRAPKO: The fluctuation across
6 the years equal two (2) or three hundred (300) rigs --
7 two (2) or three hundred (300) in each country?

8 MR. RANDY MCLEOD: Yeah. Let -- let me -
9 - let me paint it, maybe, and help clarify it for you.

10 BP runs North America as -- as a unit, so
11 Canada's part of North America and we look at our
12 portfolio of investment we look at it across North
13 America.

14 I can tell you I just returned from a
15 budgeting exercise yesterday and when I look at my peers
16 in the lower forty-eight (48), their economics are far
17 more robust than ours, going forward, and that's with our
18 current royalty and tax regimes in place.

19 MR. EVAN CHRAPKO: And we've heard --
20 that's consistent with what we've heard from others.
21 They attribute some of the -- to the foreign currency
22 issue, it's just more costly.

23 MR. RANDY MCLEOD: Yeah. You can't --
24 you can't say it's not part of it, but it's not the part
25 of it.

1 THE CHAIRPERSON: Ken...?

2 MR. KEN MCKENZIE: Yeah, you -- you use
3 the phrase that we have a conventional regime in an
4 increasingly unconventional world. As you well know we
5 don't have an unconventional gas regime, it's -- it's
6 covered under the conventional regime.

7 We dealt with a similar problem in the
8 case of the oil sands by putting in place an oil sands
9 specific regime that applies just to oil sands projects,
10 which are actually defined geographically as opposed to,
11 in terms of, you know, other -- other things.

12 Do you think there is scope for a specific
13 unconventional gas regime that is targeted at
14 unconventional gas as distinct from con -- conventional
15 or are there too many technical problems in terms of
16 applying such a regime, such as ring fencing conventional
17 from unconventional gas, et cetera?

18 MR. RANDY MCLEOD: Yeah, le -- Ken, let
19 me answer it maybe a couple ways. When you talk about
20 the current regime let -- let me quote right out of your
21 website.

22 "Generally the --"

23 MR. KEN MCKENZIE: I'm on the royalty
24 review panel, not the Alberta Energy.

25 MR. RANDY MCLEOD: Our -- our -- sorry.

1 "Generally these programs encourage the
2 exploration and development of new
3 conventional oil and gas reserves and
4 conservation enhanced recovery of
5 existing reserves."

6 No mention of unconventional. Let's --
7 let's be clear on that.

8 MR. KEN MCKENZIE: Yeah, I agree.

9 MR. RANDY MCLEOD: When you look at the
10 existing royalty regime, and it's been in place for quite
11 a few years now, it's actually done exceptionally well.
12 Look at the activity in Alberta. Look at the wealth of
13 Alberta.

14 So now when you look at the unconventional
15 resource base being roughly five (5) times that of
16 conventional going forward and -- and when you look at
17 unconventional economics they are challenged at the best
18 of times.

19 We need to -- we need to ask ourselves as
20 a -- as a panel, as Albertans, what does it take to now
21 put that royalty regime in place for unconventional that
22 promotes the activity and the wealth we've seen in the
23 previous years that we have in place for conventional?

24 MR. KEN MCKENZIE: Yeah, I agree that
25 there's just different ways you can do that. You talked

1 about some programs --

2 MR. RANDY MCLEOD: Mm-hm.

3 MR. KEN MCKENZIE: -- that -- that may be
4 more or less targeted towards unconventional. We -- some
5 of those are being phased out; some of them aren't. But
6 you talked about BC.

7 What specifically is it that BC's doing,
8 for example, that's aimed at unconventional? Is it water
9 management costs for wet coal bed methane, the way they
10 deal with that?

11 MR. RANDY MCLEOD: Let me -- let me give
12 a couple of examples and some will be royalty-based, some
13 will not, because I think when you talk as -- as you
14 actually have in your handout it's not just looking at
15 royalties -- it's looking at the whole regime.

16 MR. KEN MCKENZIE: Yeah.

17 MR. RANDY MCLEOD: So when you look for
18 example on large development of CBM in BC they look at
19 things like RFPs. Where they allow you to come in with a
20 Request For Proposal which allows you to front-end load
21 which doesn't put you into just a land and three (3) year
22 term where you have to develop hastily and improperly.

23 When you look at the other -- that's one
24 (1) goal post.

25 If you look at the other end of the goal

1 post, they have things right now in discussion with
2 industry -- how do we take the cyclic nature out of your
3 industry so you're actually level-loaded for twelve (12)
4 months of the year versus spring breakup.

5 You look at roads. Look at the incentives
6 they have for road construction and the rebates we get on
7 those now. Little things but when you add them up, they
8 do add up.

9 MR. KEN MCKENZIE: Okay.

10 MR. RANDY MCLEOD: Please, don't -- don't
11 misinterpret. I'm not trying to compare Alberta to BC,
12 I'm actually trying to promote Alberta to be as receptive
13 for unconventional royalty regimes going forward as I see
14 BC.

15 MR. KEN MCKENZIE: Okay. Thanks very
16 much.

17 THE CHAIRPERSON: Sam...?

18 MR. SAM SPANGLER: I'm -- I'm clear about
19 your view. I don't have any questions.

20 THE CHAIRPERSON: Okay. Andre...?

21 MR. ANDRE PLOURDE: Thank you.

22 MR. RANDY MCLEOD: You're going to let me
23 off easy, Sam.

24 MR. ANDRE PLOURDE: Thank you. Thanks
25 you for your presentation. A few things. You talked

1 about four dollars and twenty-three (\$4.23) gas in your
2 presentation in terms of costs.

3 MR. RANDY MCLEOD: Mm-hm.

4 MR. ANDRE PLOURDE: Does that include
5 bonus bids?

6 MR. RANDY MCLEOD: No.

7 MR. ANDRE PLOURDE: So that -- that is --
8 that doesn't include any land acquisition costs?

9 MR. RANDY MCLEOD: Excuse me, the four
10 twenty-three (4.23) I believe I was using CAPP
11 presentation in --

12 MR. ANDRE PLOURDE: Yeah.

13 MR. RANDY MCLEOD: -- that figure.

14 MR. ANDRE PLOURDE: Yeah.

15 MR. RANDY MCLEOD: -- and I believe it
16 does have land in there.

17 MR. ANDRE PLOURDE: Okay.

18 MR. RANDY MCLEOD: We look at RF&D as BP.
19 We do include land. We do include seismic and we also
20 burden it with 11 percent G&A.

21 MR. ANDRE PLOURDE: Okay. Thank you.
22 When you mentioned the programs that were available for
23 coal bed methane or natural gas and coal, however you
24 want to call it, you didn't mention the low-productivity
25 well program.

1 Why -- why did you not mention it?

2 MR. RANDY MCLEOD: No reason at all if I
3 can say that, Andre, but -- but let me -- let me dive
4 into it a bit.

5 MR. ANDRE PLOURDE: Right.

6 MR. RANDY MCLEOD: I think when they
7 brought the low productivity royalty into play --

8 MR. ANDRE PLOURDE: Right.

9 MR. RANDY MCLEOD: -- it was -- it was
10 very good because tight gas was producing on an average
11 you'd get 100,000 cubic feet per well.

12 MR. ANDRE PLOURDE: Right.

13 MR. RANDY MCLEOD: But what it does then
14 is actually promote what we would consider is, you know,
15 fairly extensive well drilling spacing. When you look at
16 what we've done by investing \$100 million in technology,
17 right, we've fifteen (15) fold increased the productivity
18 of the well and it's the husbandry of the resource, so,
19 you're getting the same resource, if not more, recovery
20 for about one-fifth of the footprint --

21 MR. ANDRE PLOURDE: Right.

22 MR. RANDY MCLEOD: -- on an environmental
23 basis. As soon as I apply that technology I have too
24 high a rate to get a low rate royalty rebate. So -- so
25 it actually can work against technology if -- if

1 you're not careful.

2 So I think the initial incentive was in --
3 in good intention but I do believe it curbs technology.

4 MR. ANDRE PLOURDE: Curbs technology?

5 MR. RANDY MCLEOD: Curbs.

6 MR. ANDRE PLOURDE: Okay, great. Thank
7 you.

8 THE CHAIRPERSON: Thank you very much and
9 we appreciate your contribution this afternoon.

10 MR. RANDY MCLEOD: Thank you.

11 THE CHAIRPERSON: Folks, we're going to
12 take a ten (10) minute break to give our fingers a rest
13 and then we're going to come back to hear three (3) more
14 energy companies right after the break.

15

16 --- Upon recessing at 2:36 p.m.

17 --- Upon resuming at 2:53 p.m.

18

19 THE CHAIRPERSON: Welcome back, ladies
20 and gentlemen, and thanks for accommodating our
21 logistics. We had a herd of people from the other room
22 that were taking up space and allowing you folks back in.

23 Next we have an opportunity to hear from
24 Ms. Tertzakian -- sorry, ARC Financial. I butchered that
25 and I apologise for it. Sir, you're ready...?

1 PRESENTATION BY ARC FINANCIAL:

2 MR. PETER TERTZAKIAN: Thank you. My
3 name is Peter Tertzakian from ARC. I'm the Chief Energy
4 Economist at ARC Financial Corp. As a citizen of Alberta
5 and as a representative of my firm, I'm grateful to be
6 able to present to you today.

7 A little bit about our firm. We're an
8 Alberta-based company that's been around since 1989, we
9 are the largest energy-focussed private equity firm in
10 Canada. Currently we're managing \$1.9 billion of equity
11 capital. We have a long track record of success in
12 growing successful energy companies. We've invested in
13 over one hundred and forty (140) companies, most of which
14 have been in Alberta.

15 This gives us a licence to, I think, say
16 that we understand what makes these companies tick. We
17 understand the environment. We do a lot of research. We
18 know what it takes for these companies to operate, be
19 successful and grow or not grow.

20 We are a large stakeholder in Alberta's
21 financial community and I come to you today as a
22 representative of the financial community. I'll also
23 point out that ARC Financial is now operating with a
24 global strategy, which it has migrated into over the last
25 couple of years.

1 This is important because as providers of
2 capital we now do have a choice of whether -- where to
3 direct our capital, where to ration our capital and, as
4 other speakers have said, we have the choice of either
5 investing our capital in Alberta or abroad, depending on
6 where the most favourable rates of return are for the
7 type of risks that we take.

8 The next slide shows you some discussion
9 points, which sets the context of my presentation. I'll
10 go over some of the key points and then some of the more
11 important details within the presentation.

12 We recognize that you are conducting a
13 royalty review and encourage it. As citizens, we -- we
14 do encourage that. However, we feel that you must be
15 mindful -- the government has to be mindful of the
16 following key requirements when implementing any kind of
17 policy, including fiscal policy.

18 The key issues that we identify are:
19 maintaining prosperity; ensuring energy security for the
20 citizens; advancing sustainability; and defending the
21 province's impeccable reputation of political and fiscal
22 stability.

23 The recent economic trends and indicators
24 - and by "recent" I mean what I observed over the course
25 of the last nine (9) months or so - suggest the

1 following: Prosperity is at risk, particularly within
2 the natural gas sector of the industry; the existence of
3 any long-term excess rent on the commodities is not
4 evident - and I underscore the word "long-term" because
5 there has to be a long-term demonstration of excess rent
6 for justification of royalties to be taken.

7 The external perceptions, particularly by
8 the financial community globally of Alberta's fiscal
9 stability is vulnerable. Maintaining a proper
10 biodiversity, as I call it, of small, medium and large
11 companies is at risk. It is important that we have the
12 biodiversity of junior companies operating at, say up to
13 five thousand (5000) barrels a day all the way to the
14 largest, operating within hundreds of thousands of
15 barrels a day, domestically and entrepreneurially run, all
16 the way to large independence and multinationals; all are
17 key.

18 And the recent trends would indicate that
19 the junior sector, in particular of the biodiversity of
20 companies, is at risk. Canada has one (1) of the highest
21 cost sources of oil and gas in the world; that's been
22 stated before. We would echo that. The investment
23 capital for natural gas exploration and development is
24 migrating elsewhere and, in particular, to the United
25 States.

1 Today's risks and vulnerabilities suggest
2 that the timing, in our opinion, is not good for
3 burdening Alberta's oil and gas industries with
4 additional royalties. We're not saying don't look at it.
5 We're not saying don't suggest it. We're saying the
6 timing is not particularly good right now given the risks
7 and uncertainties.

8 So we suggest maintaining the current
9 royalty structure until the citizens of Alberta can be
10 assured that risks and vulnerabilities are mitigated and
11 until a sustainable level of excess rent is available or
12 demonstrated.

13 The next page shows sort of a definition
14 matrix. The requirements that I suggest -- that I stated
15 for the citizens of Alberta: continuing prosperity,
16 energy security, sustainability, political and fiscal
17 stability. I offer a description of what I mean by those
18 things. I offer you what the determinants are in
19 maintaining those requirements and I underscore again
20 that Alberta's prosperity and its energy security is
21 heavily dependent upon investment and reinvestment.

22 To underscore that and to highlight it
23 more, I go back to 1776 and bring out the Wealth of
24 Nations from Adam Smith, perhaps the most famous
25 economist. And I just, I think in the interests of

1 simplicity, I think thinking sort of the three (3) key
2 factors of prosperity, the wealth of nations, as Adam
3 Smith put it: land, labour and capital.

4 If you think about our own country and our
5 own province and our resources, the land -- there is no
6 dispute that we are endowed with one of the largest
7 natural resources of energy resources in the world.

8 We have vast tracts of these resources,
9 and I think the only thing that needs to be underscored
10 with respect to land and resources is that we have been
11 exploiting these resources for over a hundred and thirty
12 (130) years.

13 Natural gas was discovered in Medicine Hat
14 in the late 1800s. The good news is we were one of the
15 first to discover oil and natural gas for commercial
16 purposes. The bad news is we're maturing fast. And that
17 maturity means that the costs are escalating despite all
18 the other cost inflationary pressures. Smaller pools,
19 more wells, mean higher costs.

20 So, we're endowed with a lot of land, but
21 we need the other two factors of production. Labour and
22 the capital. Canada, as a whole, already has one of the
23 lowest population densities in the world. The population
24 of 30 million relative to the size of its resources is
25 very small.

1 If you bring that closer to Alberta where
2 we only have 3 million people, the proportion between the
3 labour pool and the resources that we have is very small.
4 So any time we have the need to invest and to develop the
5 land and the resources, implies that we are very
6 susceptible to inflation because our labour pool is so
7 small.

8 We also, by virtue of the fact that we
9 have a small population, means that we don't have a lot
10 of capital to develop this on our own. We are heavily
11 dependent from investments from other parts of the
12 country, from financial institutions on Bay Street, from
13 financial institutions and sources of capital from all
14 around the world.

15 We cannot develop and maintain our
16 prosperity on our own, we require capital and, indeed,
17 even -- even labour from other parts to make this work.
18 There has to be an optimal blend of land, labour and
19 capital for prosperity to be ensured.

20 The next page I talk about these factors
21 of energy production: land, labour, capital. Who
22 provides them? The citizens of Alberta provide the land.
23 I think we understand the characteristics. Most of it is
24 sub-surface hydrocarbons. Much of the conventional ones
25 are maturing.

1 I've put together to help try and visualize all of this.
2 On the grey circle there I have three (3) factors of
3 production: land, labour and capital - connected
4 together by prosperity. There has to be an optimal
5 balance of those three things to make the prosperity
6 work.

7 It is bounded within the grey area by
8 legislative and social operating forces; means that we
9 have to -- the industry has to operate within the bounds
10 of the law, the legislative forces of things like
11 environmental legislation and other legislation and,
12 indeed, even a social licence to operate are all within
13 that boundary.

14 If it's well-balanced and prosperity is --
15 is being balanced, there is economic viability and
16 there's the incentive for capital providers to invest and
17 reinvest. With investment and reinvestment we -- we get
18 more production volume.

19 And today, on the conventional side, the
20 amount of investment and reinvestment, which is
21 approximately \$45 billion right now, per year; \$30
22 billion of which is targeted to the conventional side.
23 Of the 30 billion about twenty-two (22) to twenty-three
24 (23) goes to natural gas. So the reinvestment/investment
25 cycle is exceedingly important in terms of making the

1 prosperity go around and also ensuring the energy's
2 security.

3 The observable trends are that
4 conventional drilling activity down -- is down
5 approximately 31 percent a year, which is a clear
6 indicator that the incentive to invest and reinvest is
7 not happening right now. Well licensing is also down 35
8 percent year over year, which is more of a long-term
9 statement that the industry does not believe that it's
10 going to get any better in the near term.

11 Natural gas production in Alberta peaked
12 last year on -- on the near-term basis and is now
13 following and this is a direct consequence of the rigs
14 basically not being dispatched and going out, that 31
15 percent fall. The legislative pressures are mounting
16 which are increasing the cost, increasing the notion of
17 fiscal -- whether or not this is a stable fiscal place to
18 invest.

19 Wages are still rising and, by the way, I
20 have supporting graphs in the back appendices of all
21 these things. Wages are still rising at around six (6)
22 point -- 6 1/2 percent per year and finally the junior
23 oil and gas equity are substantially lagging the
24 performance with their large -- large -- larger
25 publically peers in the equity markets.

1 On an asset value basis, they're trading
2 at about a 25 to 30 percent discount and this leads
3 directly into the statement that I'm making about the
4 threats to the biodiversity of the companies that are
5 operating in the basin.

6 The next two (2) pages I talk about the
7 differences in the land, labour, capital balance between
8 natural gas conventional oil and oil sands.

9 I find that natural gas is the most
10 vulnerable right now, in fact, I would suggest to you
11 that the -- the net -- the rent is negative. The
12 conventional oil side, I would say to you, actually there
13 is the incentive to invest; however, the opportunity set
14 to invest in oil, conventional oil, right now is very
15 limited as it is becoming very hard to find good large
16 sizes of -- of -- of conventional oil.

17 THE CHAIRPERSON: Sir, can you find two
18 (2) sentences to --

19 MR. PETER TERTZAKIAN: I'm on my last
20 page.

21 THE CHAIRPERSON: All right.

22 MR. PETER TERTZAKIAN: And so basically,
23 Alberta's prosperity, energy security, and affordability
24 are all dependent on a healthy climate for investment and
25 reinvestment. That's our business and I'm telling you

1 that the indicators right now are suggesting that -- that
2 those notions are very much uncertain, at risk and
3 vulnerable, be it from cost pressures, be it from the
4 uncertainty of Canadian dollars, all the indicators
5 suggest that there's vulnerability and uncertainty.

6 The existence of sustainable - and I
7 underscore "sustainable" - excess rent for the purposes
8 of additional royalties is highly debatable and re --
9 real time indicators are suggesting that no excess rent
10 exists now.

11 Alberta's oil and gas industry is in a
12 vulnerable and uncertain period and now is not a good
13 time to be raising royalties.

14 Thank you very much.

15 THE CHAIRPERSON: Thank you.

16 Ken...?

17

18 QUESTIONS BY BOARD:

19 MR. KEN MCKENZIE: Thank you. Thanks for
20 the presentation. I'll -- I'll have a chance to go
21 through it in more detail later.

22 MR. PETER TERTZAKIAN: Yeah.

23 MR. KEN MCKENZIE: I very much appreciate
24 that. I want to talk to you about costs and I want to
25 make it clear that I'm -- I'm going to be talking right

1 now about oil sands, not oil conventional --

2 MR. PETER TERTZAKIAN: Mm-hm.

3 MR. KEN MCKENZIE: because as you well
4 know, they're subject to a different royalty structure.
5 Okay.

6 So I understand cost increases are
7 compromising the economics of oil sands development;
8 that's clear and -- and I understand that, but how to you
9 react to the following statement that the -- the current
10 oil sands royalty system, in particular, the net post
11 payout system perfectly accounts for that because the
12 government participates only after costs have been
13 recovered, including capital costs which include a return
14 allowance.

15 So in other words, there's a first
16 approximation and there's some slight deviations here
17 that I won't go into. The net royalty approach in royal
18 -- oil sands perfectly accounts for costs in a -- in fact
19 is neutral with respect to costs and, indeed, the
20 government participates only when there are, in fact,
21 rents realized because we're allowing their costs
22 including a re -- a return on capital to be -- to be
23 recovered.

24 Are you arguing, in light of that, there's
25 no scope for any increases in the net royalty rate

1 because of a rising cost environment?

2 MR. PETER TERTZAKIAN: What you're
3 describing, and I have to sort of rationalize it in my
4 head, but is more of a bottom-up approach in terms of
5 understanding the economics and determining whether or
6 not there's any excess rent.

7 I'm coming at it from a top-down approach
8 and telling you from the indicators of the behaviour of
9 marginal dollars of investment from -- that -- that there
10 is no excess rent available, is -- is basically what I'm
11 telling you, based on the behaviour of the way investors
12 are behaving, the way reinvestment is working right now,
13 so I think -- and the other point that I would make is,
14 which is in the -- in the report here, is that there's a
15 tremendous diversity in oil sands companies.

16 Okay. So all the way from, as you know,
17 SAGD, to mining, to small to large, to different
18 processes, so -- and different quality of -- of land, so
19 I don't think we can actually generalize with one -- one
20 -- one statement.

21 MR. KEN MCKENZIE: I'm not generalizing.
22 Indeed, the system, I'm arguing, takes account of the
23 differences in costs --

24 MR. PETER TERTZAKIAN: Mm-hm.

25 MR. KEN MCKENZIE: -- across projects

1 because it allows those costs to be deductible for net
2 royalty purposes. So it will account for that already
3 and if they are, in fact, in the negative rent scenario,
4 then they're -- then the net royalty will, in fact, be
5 zero.

6 MR. PETER TERTZAKIAN: You know, I'd have
7 to think about that.

8 MR. KEN MCKENZIE: Okay.

9 MR. PETER TERTZAKIAN: I -- I really -- I
10 can't give you an on-the-spot thing. All I'm telling you
11 is that from a -- from a top-down approach --

12 MR. KEN MCKENZIE: Okay.

13 MR. PETER TERTZAKIAN: -- it does not
14 appear to me at this time --

15 MR. KEN MCKENZIE: Right.

16 MR. PETER TERTZAKIAN: -- at this time
17 and --

18 MR. KEN MCKENZIE: Right.

19 MR. PETER TERTZAKIAN: -- that there is
20 any excess rent or that there is any indication of
21 sustainable excess rent, which is what I believe you need
22 to be able to justify raising royalties, okay?

23 MR. KEN MCKENZIE: Okay. Good. Thank
24 you.

25 THE CHAIRPERSON: Sam...?

1 MR. SAM SPANGLET: Thanks for the
2 presentation. A couple of points. You made a statement
3 that there is a risk of slowdown. A lot of Albertans and
4 executives in the industry would like to see a slowdown
5 which might help out the cost craziness that is going on
6 in this province.

7 So why is it a risk? Nothing is going to
8 go away. Stuff is going to stay in the ground.

9 MR. PETER TERTZAKIAN: Well, the risk is
10 this is that as we've -- as I've mentioned that the
11 natural gas side of the business is the most vulnerable;
12 70 to 80 percent of the drilling activity is natural gas
13 targeted. Okay?

14 So, you know, you're talking -- we -- we
15 really don't need to get into the specific numbers, but
16 let's just say on -- on average, twenty thousand (20,000)
17 wells a year of which -- of which 70 to 80 percent are
18 natural gas.

19 So, if the marginal economics of natural
20 gas are not working, which we've heard several speakers
21 say it is not and we would echo that, then the risk is
22 that you are disproportionately actually affecting the --
23 the prosperity of the province and the citizens.

24 And I -- you know, this is a story that is
25 just coming out. Okay.

1 MR. SAM SPANGLET: Oh, I understand that.

2 MR. PETER TERTZAKIAN: This is -- this is
3 -- this is not something that I believe is widely
4 acknowledge.

5 Now spring break-up is here so it's sort
6 of masking what's going on. But, unfortunately, what's
7 going to happen here -- and this is more than just my
8 opinion, it's the anecdotes that you're hearing, is
9 people are not going to be coming back to work.

10 MR. SAM SPANGLET: Okay.

11 MR. PETER TERTZAKIAN: Your drilling
12 activity, year over year, is down 31 percent.

13 MR. SAM SPANGLET: I understand that. My
14 second point is you said that Alberta is one of the most
15 expensive places to come in, I think you mentioned
16 somewhere.

17 MR. PETER TERTZAKIAN: Mm-hm.

18 MR. SAM SPANGLET: And yet everybody's
19 coming in.

20 MR. PETER TERTZAKIAN: Well, who's coming
21 in?

22 MR. SAM SPANGLET: Shell bought -- Shell
23 bought Shell Canada, Total bought Deer Creek, and I know
24 -- and I'm not going to get into it, a lot of other
25 people --

1 MR. PETER TERTZAKIAN: Sure.

2 MR. SAM SPANGLET: -- are looking at a
3 lot of companies, so if it's so bad, why is it so good?

4 MR. PETER TERTZAKIAN: Well, they're
5 coming -- I mean, I think one reason is they're coming in
6 to established projects.

7 MR. SAM SPANGLET: Yeah, but if it's so
8 bad, why is it so good?

9 MR. PETER TERTZAKIAN: They're already
10 established. They're -- the foothold has already been
11 there. There's also some notion of this idea of fiscal
12 stability and -- and a long-term view of -- of the
13 business.

14 The oil sands is not like the, you know,
15 shallow gas drilling here. The oil sands require a very
16 long-term view, you know, ten (10) to thirty (30) years.

17 MR. SAM SPANGLET: Mm-hm.

18 MR. PETER TERTZAKIAN: And so, that's --
19 it's a completely different perspective of why people are
20 coming in.

21 MR. SAM SPANGLET: Thank you.

22 THE CHAIRPERSON: Evan...?

23 MR. EVAN CHRAPKO: Thank you. You
24 discuss an investment/re-investment cycle and then also
25 on slides number 4 and 10, the importance of the

1 biodiversity. I'm assuming that there's also an
2 inevitable cycle in the biodiversity at any point in
3 time.

4 And if the answer to that is yes, then can
5 government share -- be expected to offset a -- a tsunami
6 of commodity price changes or costs, Cap-X and Op-X
7 pricing and cost increases?

8 MR. PETER TERTZAKIAN: Yeah. You know,
9 that's a really good question. Because you're right.
10 There is a cycle in the biodiversity and the make-up of
11 the landscape of companies in this -- and -- and,
12 ultimately, the Canadian oil and gas industry, which has
13 been around since the late 1800s, just has a way of re-
14 balancing.

15 But what I'm arguing to you actually right
16 now is that there's considerable uncertainty with the
17 current conditions, right, to come in at a very uncertain
18 and vulnerable time and layer on another fiscal burden is
19 not a prudent thing to do. That's what I'm saying.
20 Okay. 'Cause just as the industry is likely to recover
21 from these things, which typically take sometimes a
22 couple of years, you're going to come in a burden them
23 again.

24 I mean, I think that this is what I find
25 the -- the riskiest of propositions. I'm not arguing

1 against doing the royalty review. I'm not arguing in
2 terms of considering all these different things, but I'm
3 suggesting that this is being done at an extremely
4 vulnerable time in the industry.

5 THE CHAIRPERSON: Andre...?

6 MR. ANDRE PLOURDE: Thank you. Your --
7 thanks, Peter, for your presentation and I haven't gone
8 through this and I will, but I'll -- I'll draw your
9 attention to something else in a minute or so.

10 You were talking about looking in the long
11 term and -- and trying to draw conclusions based on long-
12 term indicators, not on kind of quarter to quarter. But
13 yet the evidence that you provide in terms of that there
14 is a downturn is, in fact, one-quarter's worth of -- of
15 material.

16 MR. PETER TERTZAKIAN: Well, actually, I
17 would argue that it's more like two- or three-quarters,
18 but that -- that -- that's fine. It is in the -- in the
19 scope of the long term. I -- I think you're -- you're --
20 you're right, but I think -- I -- I'm -- I'm pointing
21 out, again, this concept of uncertainty and
22 vulnerability.

23 I -- I -- we've had this discussion about
24 costs probably for two (2) days now and, you know, costs
25 -- the uncertainty is whether or not these costs are

1 going to come down. Some of them will, but many of them
2 are -- are -- are -- are likely not, okay. So the --
3 this whole notion of uncertainty is, to me, yes it's
4 going down right now, but how long is it going to take to
5 come back up?

6 I see indications of potential self-
7 correction as the industry always tries to do, but I can
8 assure you that if there's more burden placed on the
9 companies, that this self-correction that happens with
10 the biodiversity and the activity and so on, which I
11 don't debate will happen at some point, is just going to
12 be extended a lot longer and maybe if -- if -- maybe even
13 permanently depending on where -- how -- how -- how
14 things shake out.

15 I -- I don't have all the answers of how
16 it's going to shake out, I just want to highlight to you
17 that the indicators show we're in a very vulnerable
18 position right now.

19 MR. ANDRE PLOURDE: Okay, but is it
20 possible that what's been happening over the last few
21 years is, in fact, some kind of overshooting, exuberance
22 within the market is now kind of also re-adjusting.
23 After all, oil prices are seventy dollars (\$70) a barrel
24 and natural gas is trading at something like seven fifty
25 (\$7.50).

1 If you go back six (6) years ago, people
2 thought they would have died and gone to heaven if these
3 indications are present.

4 MR. PETER TERTZAKIAN: Oh sure. Yeah,
5 no, I mean, that -- that-- that's fair, but I mean the
6 industry doesn't run on the top line, it runs on the
7 margin -- margins, in other words, a profitability.

8 And the profitability today on natural gas
9 for sure is -- is -- is not there to stimulate the
10 reinvestment, so that -- that's -- the rig count is your
11 cue that the money is not being reinvested.

12 MR. ANDRE PLOURDE: Okay.

13 MR. PETER TERTZAKIAN: Okay, that -- that
14 -- that's your -- that's your --

15 MR. ANDRE PLOURDE: Okay, and just to
16 pick up on --

17 MR. PETER TERTZAKIAN: -- lack of --

18 MR. ANDRE PLOURDE: -- on the margin
19 point, when you say there's no excess rent, are you --
20 are -- if I can -- help me understand.

21 Are you saying that at the margin there is
22 no excess rent or are you saying that essentially all the
23 infra-marginal projects are also not -- have no excess
24 rent?

25 MR. PETER TERTZAKIAN: Well, you know,

1 it's some -- there's a tremendous range of profitability
2 between the worst company and the best company in the
3 basin, okay. So, you know, I guess the best company in
4 the basin would have excess rent to offer, the worst
5 companies don't. I mean, because -- you -- you -- so --

6 MR. ANDRE PLOURDE: Right. Right.

7 MR. PETER TERTZAKIAN: The question is,
8 at -- at where do you draw the line?

9 MR. ANDRE PLOURDE: Right.

10 MR. PETER TERTZAKIAN: And I'm saying,
11 now we have to lay around the macro-perspective of
12 prosperity for all Albertan's --

13 MR. ANDRE PLOURDE: Right.

14 MR. PETER TERTZAKIAN: -- which applies a
15 certain level of activity, for Number 1, to just -- just
16 even to maintain natural gas production and offset the
17 declines.

18 MR. ANDRE PLOURDE: Right.

19 MR. PETER TERTZAKIAN: All right. And to
20 keep -- keep all of the direct employees and all the
21 indirect employees of the oil industry working, on the
22 conventional side, in particular, remembering again that
23 70 to 80 percent of those are natural gas directed
24 workers.

25 MR. ANDRE PLOURDE: Right.

1 MR. PETER TERTZAKIAN: So where do you
2 draw that line? I would say to you that actually we're
3 not -- we're at really a risk of not even maintaining
4 that level of prosperity that we want, even on the -- in
5 -- in the current circumstances.

6 MR. ANDRE PLOURDE: Okay. One (1) last
7 thing, if I may. This takes you back to something from
8 last year --

9 MR. PETER TERTZAKIAN: Yeah, mm-hm.

10 MR. ANDRE PLOURDE: -- that you -- you
11 did the -- the -- where -- one (1) of the conclusions
12 that you -- you drew was that the balance sheets were
13 healthy, but reinvestment options are restricted --

14 MR. PETER TERTZAKIAN: Right.

15 MR. ANDRE PLOURDE: -- in the sense that
16 reinvestment ratios were down and your -- the argument
17 made in this case is that they were not good enough
18 prospects to draw the investment.

19 MR. PETER TERTZAKIAN: Mm-hm. Right.

20 MR. ANDRE PLOURDE: Well, a possible
21 conclusion would have been -- given that, it would have
22 been possible for the government of Alberta to take a
23 larger take and not affect activity level.

24 Would -- what - is that a fair
25 interpretation of -- of that information?

1 MR. PETER TERTZAKIAN: Okay, so let --
2 let me just -- I just want to be really clear on that.

3 MR. ANDRE PLOURDE: Okay.

4 MR. PETER TERTZAKIAN: So the statement
5 that I had made was that it was --

6 MR. ANDRE PLOURDE: The balance sheets
7 were -- are healthy, but reinvestment options are
8 restricted, so --

9 MR. PETER TERTZAKIAN: Right.

10 MR. ANDRE PLOURDE: -- that's how you
11 explained, essentially, that their reinvestment ratio
12 fell below -- much below a hundred (100). There were a
13 lot of people running around with un-invested cash.

14 MR. PETER TERTZAKIAN: Right.

15 MR. ANDRE PLOURDE: Right?

16 MR. PETER TERTZAKIAN: Right.

17 MR. ANDRE PLOURDE: And so my question to
18 is: Is it a reasonable interpretation, therefore, to say
19 that the government --

20 MR. PETER TERTZAKIAN: Mm-hm.

21 MR. ANDRE PLOURDE: -- take could have
22 been higher --

23 MR. PETER TERTZAKIAN: Mm-hm.

24 MR. ANDRE PLOURDE: -- without affecting
25 activity?

1 MR. PETER TERTZAKIAN: At that time it
2 could have been.

3 MR. ANDRE PLOURDE: Okay.

4 MR. PETER TERTZAKIAN: At that time.
5 But, you know, it's very important to recognize that
6 there are times when there is excess rent for fleeting
7 moments in the big picture history of oil and gas. And
8 there are times when there's really negative excess rent,
9 okay, so for that period in time, I -- I think maybe we
10 could have had a debate that said maybe yes. Okay?

11 But looking at it from the perspective of
12 the last nine (9) months, which is since that report has
13 been written, I'd say it's -- it's -- this is no longer
14 the case.

15 Bearing in mind, too, that there's, you
16 know, the cost of capital for one thing was very low when
17 that report was written. So there was a lot of
18 investment and re-investment money trying to come in into
19 a constrained opportunity set, okay.

20 THE CHAIRPERSON: Let's move on to our
21 last set of questions.

22 MR. PETER TERTZAKIAN: To -- just -- just
23 to finish off, when the royalties trusts reversal came
24 in, in October, the cost of capital went up, and then now
25 with all the other fiscal uncertainty. So it's a

1 combination not only of the cost of maturity, the cost of
2 services and labour, it's also the cost of capital.

3 And so all those three (3) things have
4 changed since that report has been written. Thank you.

5 THE CHAIRPERSON: Okay. Great.

6 Judith...?

7 MS. JUDITH DWARKIN: Thank you. Thanks,
8 Peter. I'll read your report with interest. I have a
9 couple of questions. One doesn't have anything to do
10 with rent at all, you'll be pleased to know. It's to do
11 with the page where you set out what key requirements --
12 I guess you mean key requirements of a royalty system.

13 And one, in particular, caught my eye that
14 it somehow help accommodate energy security --

15 MR. PETER TERTZAKIAN: Mm-hm.

16 MS. JUDITH DWARKIN: -- by which you mean
17 Albertans have a secure and affordable supply of
18 petroleum products and natural gas.

19 What -- what do you mean by that in the
20 context of market-based pricing?

21 MR. PETER TERTZAKIAN: Right. Good. I'm
22 glad you brought that up. So just quickly, we have a
23 situation where the rig count is going down by 31
24 percent, the pipeline receipts for natural gas is going
25 down and will probably go down further.

1 Against this backdrop we have an Alberta
2 population that's growing, an economy that's growing, the
3 oil sands and other industrial users are growing. So we
4 have falling production and growing consumption in this
5 province.

6 So the first thing to fall off is exports,
7 right? But if this trend -- if these economics don't
8 self-correct -- and this is what I'm pointing to is this
9 whole issue of the uncertainty, that re-investment/
10 investment tap does not open up. Okay? We're at risk
11 where -- the -- just even within Alberta, with growing
12 consumption and dropping production, that we're going to
13 be susceptible to price spikes --

14 MS. JUDITH DWARKIN: Mm-hm.

15 MR. PETER TERTZAKIAN: -- and -- and --
16 and it's just not a healthy thing to have this dynamic of
17 growing consumption and falling production.

18 MS. JUDITH DWARKIN: But would you agree
19 -- I mean, the market allocates based on price and price
20 spikes. So are you --

21 MR. PETER TERTZAKIAN: True. But is that
22 -- do we -- do we really want, as citizens, price spikes
23 for consumers to catalyse drilling activity which will
24 then take, you know, eighteen (18) months to two (2)
25 years to get our production back up again? I mean, as I

1 said, this is a -- there's always lag -- I didn't say it,
2 but there's lags in these systems.

3 MS. JUDITH DWARKIN: Mm-hm.

4 MR. PETER TERTZAKIAN: And do we have to
5 wait for -- do we have to be reactionary to -- to -- to
6 self -- to help -- to facilitate the correction? We're
7 thinking the opposite. We're actually thinking about
8 burdening the system more, not -- let alone trying to
9 catalyse self-correction.

10 MS. JUDITH DWARKIN: Do you subscribe to
11 the notion that a rent collection system should be
12 progressive with respect to available rent?

13 MR. PETER TERTZAKIAN: Progressive -- if
14 it's mindful of all the different uncertainties and
15 factors --

16 MS. JUDITH DWARKIN: Mm-hm.

17 MR. PETER TERTZAKIAN: -- potentially.

18 MS. JUDITH DWARKIN: So the --

19 MR. PETER TERTZAKIAN: But -- go ahead,
20 go ahead.

21 MS. JUDITH DWARKIN: Okay. The current,
22 you know, conventional gas royalty marginal rates flatten
23 out at a --

24 MR. PETER TERTZAKIAN: Mm-hm.

25 MS. JUDITH DWARKIN: -- gas price that's

1 about half of today's, so it's essentially flat.

2 MR. PETER TERTZAKIAN: Right.

3 MS. JUDITH DWARKIN: And yet you are
4 saying -- you're telling us that, and your belief is that
5 there's negative rent available from conventional gas
6 now.

7 So, if my conclusion of all that
8 meandering is that I'm -- I'm a little surprised you're
9 not recommending some changes to the conventional gas
10 royalty.

11 MR. PETER TERTZAKIAN: Well, I was
12 actually thinking of saying you should think about
13 dropping it because, you know, because of these issues
14 that I -- that I pointed out, but one that's progressive
15 and adaptable is an interesting thought and -- and I
16 think is worth entertaining -- entertaining because gas
17 prices are very volatile and I would suggest they're
18 going to continue to be volatile.

19 MS. JUDITH DWARKIN: Thanks.

20 THE CHAIRPERSON: Thank you very much for
21 your presentation today.

22 MR. PETER TERTZAKIAN: Okay.

23 THE CHAIRPERSON: Appreciate that.

24 We now have an opportunity to hear from
25 Mr. Hydman from BA Energy. Welcome back.

1 PRESENTATION BY BA ENERGY:

2 MR. ALEXANDER HYDMAN: Thank you. Ray
3 Cej sends his regrets that he was inadvertently called
4 away and so I'm pinch hitting here for him today.

5

6 (BRIEF PAUSE)

7

8 MR. ALEXANDER HYDMAN: Thank you, Mr.
9 Chairman. Good afternoon, panel members and ladies and
10 gentlemen. Thank you for the opportunity to present the
11 views of BA Energy to this panel. We appreciate your
12 efforts in reviewing the issue of royalties and taxes
13 that affect the oil sands industry.

14 BA Energy is a private Alberta-based
15 company and it's part of the Value Creation Group of
16 companies founded by Dr. Columba Yeung. BA Energy was
17 established to develop the Heartland Upgrader Project
18 which is currently under construction near Fort
19 Saskatchewan. The Heartland Upgrader employs proprietary
20 technology developed by the Value Creation Group to
21 upgrade bitumen into valuable refinery ready synthetic
22 crude oil.

23 Bitumen is over half heavy residue
24 containing high concentrations of asphaltenes and heavy
25 organic metal compounds and this makes it not able to be

1 processed in the majority of North American refineries.

2 The value creation technology addresses
3 these properties with two (2) processes. The accelerated
4 decontamination process selectively removes asphaltenes
5 from the bitumen and the ultra-selective pyrolysis
6 process cracks heavy residue into light synthetic crude
7 oil products. The upgraded products can then be
8 processed by a conventional refineries equipped to run
9 light and medium sour conventional crudes.

10 As I mentioned, BA Energy was established
11 to construct and operate the Heartland Upgrader. As a
12 merchant upgrader, BA Energy will purchase bitumen blend
13 feed stocks from various producers, upgrade the bitumen
14 into more valuable refinery feed stock and derive
15 economics from the value added.

16 The upgrader has approvals to process two
17 hundred and sixty thousand (260,000) barrels per day of
18 bitumen blend. The first phase of seventy-seven
19 thousand, five hundred (77,500) barrels per day is now
20 under construction with startup scheduled in about
21 eighteen (18) months. Future phases will then be
22 constructed to attain the approved capacity.

23 The upgrader is located in the heavy
24 industrial policy area of Strathcona County. This slide
25 shows the location of the upgrader in Alberta's

1 industrial heartland, in the blue there; east of the
2 Scotford -- the Shell Scotford complex.

3 Following BA's decision to locate in the
4 area, a number of other firms have acquired sites for
5 proposed projects in the area. This slide shows more
6 detail of BA Energy's land holding. Phases 1 and -- to -
7 - through 3 of the project are all located on the two (2)
8 northwest quarters and the additional lands provide
9 significant potential for growth beyond the three (3)
10 phase project now approved.

11 This slide shows the project under
12 construction, starting with site clearing in the fall of
13 2005. Deep underground piping was installed over the
14 past year. The stack was completed at the end of last
15 year and the building complex housing the operation's
16 control centre and maintenance shop and administration
17 was completed this spring. The operation staff have now
18 moved onto the site.

19 Construction on the Enbridge Stonefell
20 Terminal, shown in the lower right, began in March, and
21 that picture was taken from the top of the stack.

22 The project is expected to be completed in
23 late 2008. Development of the Heartland Upgrader has
24 been consistent with Alberta's goals for value addition
25 to the oil sands. The Heartland Upgrader was the first

1 project announced for Alberta's industrial heartland
2 after the formalization of that area for location of such
3 projects.

4 BA Energy entered into an alliance with
5 Enbridge Pipelines for pipeline terminal services from
6 the adjacent Stonefell Terminal, thus reinforcing the
7 area as a transportation hub for oil sands projects --
8 products.

9 Aux Sable Canada Limited is constructing
10 the Heartland Off Gas Plant to generate petrochemical
11 feed stocks from BA Energy's Heartland Upgrader off-gas.
12 Aux Sable is also developing the North Sable Extraction
13 Plant adjacent to the Alliance Pipeline on the same site
14 as the Heartland Off-Gas Plant. Thus, BA Energy is
15 supporting, through its actions, the Alberta goals of oil
16 sands development.

17 The oil sands face many economic
18 challenges. Natural gas fuel for SAGD recovery is a
19 major cost. Energy efficiency and alternative fuels will
20 be important to the future. Both mining and SAGD
21 projects tend to go after the easiest resource first.
22 Recovery of resource from increasingly challenging
23 geology will be needed to sustain a profitable industry
24 and the capital cost hurdles for upgrading can be
25 formidable.

1 The answer to these challenges, and the
2 additional factor of meeting the climate change
3 challenge, is to research, develop and invest in
4 continually improving technology.

5 The 1996 fiscal terms have been ideally
6 suited to oil sands development. The integrated royalty
7 and tax structure mitigates front-end risks of large
8 projects. It encourages the pursuit of value through
9 upgrading, growth and economic efficiency. And these are
10 common objectives between Alberta, as the resource owner,
11 and industry, as the resource developer, as they derive
12 their royalties and profits respectively from the
13 economic rent so generated.

14 However, we have concerned over --
15 concerns over the accelerated capital cost allowance that
16 has been instrumental in fostering upgrading investment.
17 First, the Federal Government has tabled a phase-out of
18 ACCA for oil sands, and only oil sands, in the March
19 budget. This will be detrimental to upstream and
20 integrated projects and singles out one mining industry
21 in the country located mainly in Alberta and emerging on
22 a smaller scale in Saskatchewan.

23 Second, there has not been common
24 treatment of stand-alone or merchant, if you will,
25 upgraders to have access to ACCA. Having sufficient

1 upgrading capacity in Alberta is the province's best
2 strategy to avoid heavy discounts on bitumen caused by
3 oversupply of bitumen and under-supply of suitable
4 diluents to market and transport -- raw bitumen.

5 Upgrader are also a potential supply for
6 fit -- for purpose diluent to relieve supplies of costly
7 imported condensate or the use of hydro-treated, low
8 sulphur synthetic crude oil being blended back into raw
9 bitumen. Stand-alone upgrader, as net consumers of
10 bitumen, will enhance bitumen value, the royalty base.

11 So our recommendations for Alberta are:

12 The royalty structure is not out of date
13 by today's challenges.

14 The fiscal structure has been working and
15 should not be made less attractive.

16 The tax system has been integral to the
17 total fiscal system.

18 The phase-out of ACCA tabled in the
19 federal March budget steps away from the integrated
20 structure based on economic profit.

21 We recommend that Alberta extend its ACCA
22 to non-integrated merchant upgrader and that industry and
23 government work to have the Federal phase-out rescinded.
24 The point is that the current fiscal regime makes it
25 attractive to invest in oil sands and to invest in R&D to

1 recover the resource more economically.

2 This is the added development -- the
3 value-added development that Alberta has been seeking to
4 create for three (3) decades or more. It wouldn't have
5 happened without the fiscal regime adopted in 1996 and if
6 the regime becomes less attractive, this kind of
7 innovation and investment cycle won't continue in
8 Alberta. Investments, particularly upgrading, will move
9 elsewhere and the benefits will go to other regions.
10 Thanks.

11 THE CHAIRPERSON: Evan...?

12

13 QUESTIONS BY BOARD:

14 MR. EVAN CHRAPKO: Thank you for your
15 presentation. Are you suggesting that ACCA, by itself or
16 -- has a disproportionate impact on innovation or -- or
17 the creation of new technology?

18 MR. ALEXANDER HYDMAN: The most difficult
19 part of the innovation cycle is often not the research or
20 the small pilot work to show feasibility, but then that
21 hurdle of making that large capital investment to create
22 the first commercialization of the project. So ACCA is
23 probably more important in some respects than some of the
24 R&D tax credits that are -- that are given under
25 corporate income tax.

1 And I think the other thing about ACCA is,
2 -- as you may know, I worked on that implementation of
3 the '96 reforms and we put a lot of effort into
4 structuring things and getting them almost as far as we
5 could to a pure -- a pure tax on economic profit, which
6 is one that allows for, you know, a fairly healthy
7 overall take by governments.

8 And removal of EC -- ACCA departs from
9 that -- departs from that model. There's a recent paper
10 put out by the Howe -- CD Howe Institute which has
11 demonstrated that in -- in capital investment per worker
12 is -- is fundamental to economic growth and to -- to
13 well-being in the economy. Taxes on capital, either
14 direct or indirect, are -- are simply counter to -- to
15 that -- that spur to economic growth.

16 So having gotten the system driven as
17 close as we could without tearing apart the corporate
18 income tax structure using the tools -- were there to a -
19 - a pure form of -- of economic profit, we hate to see
20 departures from that.

21 MR. EVAN CHRAPKO: Thank you.

22 MR. ALEXANDER HYDMAN: There are more
23 efficient ways of raising revenue than -- than dragging
24 out depreciate -- capital cost allowances.

25 THE CHAIRPERSON: Andre...?

1 MR. ANDRE PLOURDE: Thank you. Thanks
2 for your presentation and thanks for the material that
3 came with it. There was a paper attached to it. Thank
4 you very much.

5 One thing unrelated to the points you've
6 been making, so please understand it's kind of taking you
7 in a different direction. The -- the pro -- the BA
8 upgrader is being built on a phased or modular approach
9 in terms, you know, small chunk, fifty-six thousand
10 (56,000) barrels then try --

11 MR. ALEXANDER HYDMAN: Correct.

12 MR. ANDRE PLOURDE: -- to go to a bigger
13 chunk. Any idea of what the cost implications of that
14 are, let's say, on per barrel of output? Is it cheaper
15 to do it this way; is it more expensive to do it this way
16 than having built the hundred and eight thousand
17 (180,000) barrel, right off the bat?

18 MR. ALEXANDER HYDMAN: With proven
19 technology that had been commercialized before, there
20 would probably be a stronger drive to do just what you're
21 saying. The incentives for going in steps are -- this is
22 the first commercialization of this technology, so the
23 technical risk exposure is reduced by taking it in steps.

24 There are -- are also market implications
25 of putting a huge chunk of demand on the market which

1 isn't matched with a -- with a corresponding increase in
2 supply. But, generally speaking, you're -- you're --
3 you're correct in assuming that larger units have -- have
4 those economies of scale. And those have to do with
5 basic physics so that they don't go away.

6 The downside of the -- the bigger
7 projects, I guess, in Alberta is that at least recently
8 and perhaps worldwide they -- we seem to have lost the
9 art in our track record, generally, as an industry on the
10 multi-billion dollar projects has been that they've
11 gotten -- gotten away on people and -- and suffered
12 greater overruns than the projects that have been in the,
13 you know, three hundred (300) to a billion-dollar range.
14 Most of those, people seem to forget, did not overrun by
15 large factors over the past decade.

16 It doesn't mean to say that it can't be
17 done; it -- it, you know, it was done in the past where
18 we -- we kept some of those bigger projects on track.

19 But remember we suffered a very severe
20 loss of experi -- we've got a generation gap. The
21 industry didn't hire very many new graduates '83 to '93.
22 Those people will now be, you know, forty-five (45) years
23 old; they would be the -- the lead engineers when you've
24 got a few hundred engineers in a shop designing a big
25 project and in the trades they would be the leads in the

1 field. So we're -- we're -- here we are in a growth
2 period and we're missing that generation that -- that
3 didn't occur in the '80s.

4 MR. ANDRE PLOURDE: Okay, thanks.

5 MR. ALEXANDER HYDMAN: And I might point
6 out that -- that, you know, when those fiscal terms were
7 developed in the mid '90s, there have been a perception
8 that we were only looking at low prices, how do we get it
9 going; that's not true. We had much higher prices in the
10 early '80s in real terms than we do today and we had
11 developments col -- collapse at that because of -- of
12 fiscal wars.

13 So the -- the art of design of the '96
14 terms was to take into account that prices do fluctuate.
15 We have some very highs and we have some lows and we want
16 consistency of people keeping their eye on the long-term
17 ball through the peaks --

18 MR. ANDRE PLOURDE: And maybe I could
19 pick up on the last point in terms of the 1996 fiscal
20 regime. I mean, part of what you've been telling us is
21 the -- the importance of the regime to ensuring the
22 development and -- and why it's important it applies to
23 you -- to the project that you're -- you're discussing.

24 But CAPRA provided us with some
25 information. They released this -- this information on

1 oil sands and the argument made in that publication is
2 that the 1996 fiscal regime is effectively the same
3 thing. It treats investment or producers the same way as
4 the Cold Lake arrangements ahead of time.

5 MR. ALEXANDER HYDMAN: With some
6 differences, that's true. I -- I would guess there would
7 be -- there would be three (3) differences.

8 First of all, Alberta used the Cold Lake
9 regime as the starting point for negotiations and had an
10 avowed policy of negotiating projects on a case-by-case
11 basis. This was very detrimental to development because
12 you didn't know ahead of time what the de -- what the
13 ultimate fine points on the deal were going to be.

14 And secondly, it was likely that if you
15 were smart and had a better project, some of that might
16 be negotiated away from you as you proceeded through the
17 development.

18 Secondly, Cold Lake had a 1 percent rising
19 to 5 percent gross minimum payable royalty, so, certainly
20 if you're looking for a pure R minus C tax on economic
21 profit, the higher the gross is, the further you depart
22 from that model. And you're collecting that gross only
23 in a -- at a period when you're either losing money or
24 haven't achieved payout.

25 And the third difference was the tax

1 system. Now the ACCA provision, first of all, we brought
2 SAGD and in situ projects into the same regime for the
3 same type of assets as the -- as the surface mining and
4 all of mining in Canada had.

5 And the second change was to introduce the
6 5 percent rule. So ACCA had been available for decades
7 to new mines and expansions of new mines of greater than
8 25 percent. The 5 percent rule, which allowed for
9 expenditures that exceed the -- the 5 percent of the
10 gross revenue of the mine in a year meant that,
11 essentially, all large capital expenditures, whether for
12 expansion, whether for energy conservation, other forms
13 of economic efficiency would be eligible -- eligible.

14 So now, putting all those things together
15 and stability, constancy, and here's the deal, the only
16 small departures from pure tax on economic profit are the
17 1 percent minimum gross payable and that portion of
18 sustaining capital that wasn't eligible for ACCA. So for
19 all big initiatives, essentially, it was an R minus C on
20 both tax and royalty.

21 THE CHAIRPERSON: Thank you. Ken...?

22 MR. KEN MCKENZIE: I would actually
23 debate you on that point simply because that statement is
24 only true if there's no debt financing and interest
25 deductibility.

1 MR. ALEXANDER HYDMAN: That -- that is
2 true. The -- the -- the royalty system in a ring-fenced
3 system where the cost of capital is allowed by a deemed
4 method attached to a -- a published rate which in Alberta
5 is the long-term bond rate. The tax system doesn't tax
6 ring-fence projects, it taxes corporations and -- and
7 interest is handled a different way. There is no
8 deduction for a -- for a cost of capital allowance, but
9 there is deductibility of -- of debt capital.

10 MR. KEN MCKENZIE: Mm-hm.

11 MR. ALEXANDER HYDMAN: So you're --
12 you're -- you're -- you're correct that there is that
13 difference between the two (2) pieces, yeah.

14 MR. KEN MCKENZIE: Just further to --
15 well, not necessarily that, but just a slightly different
16 tact.

17 Introduced concurrently with the phase-out
18 -- the announced phase-out of the ACCA was the
19 announcement of a fast writeoff for manufacturing
20 equipment, which my understanding is -- is -- was to be
21 temporary.

22 Have you explored or do you know anything
23 about the potential eligibility of upgrading for that
24 faster manufacturing allowance if it is extended?

25 Well, right now it's a moot point because

1 of the phase-out for the ACCA and the temporary nature of
2 the manufacturing writeoff. But if it is extended, do
3 you know or have you explored with -- with finance or
4 anybody else, the eligibility of upgrade or?

5 MR. ALEXANDER HYDMAN: I -- I haven't,
6 no.

7 MR. KEN MCKENZIE: Right.

8 MR. ALEXANDER HYDMAN: But I -- you know,
9 I would comment that, you know, it's interesting that it
10 is recognized that it works and periodically these
11 accelerations are -- are granted for -- whether it be
12 for, you know, energy conservation projects,
13 environmental ne -- new processes with environmental
14 enhancements and that sort of thing.

15 I guess, you know, go back and read the --
16 the CDL (phonetic), why not go all the way and say this
17 is a very attractive feature because of the way it works?
18 Its eligibility is only for reinvestment in the country.
19 And don't use it everywhere, just use it in those places
20 where you're interested in economic efficiency within the
21 country or economic competitiveness, you know, worldwide
22 on world markets. By the time you've done that, you
23 might as well have given it to everybody.

24 MR. KEN MCKENZIE: Thanks for that.

25 THE CHAIRPERSON: Sam...?

1 MR. SAM SPANGLET: Hi, Al. First of all,
2 thanks for being such a pioneer in oil sands. Now after
3 the years, I mean, you have a lot of experience and
4 thanks for your efforts. One (1) question -- a quick
5 one.

6 I believe that oil sands has reached --
7 has become a mature business and the question I have to
8 you: Convince me why we should move the royalties in oil
9 sands towards conventional royalties.

10 MR. ALEXANDER HYDMAN: It's a mature
11 business, but it's a grinder business.

12 MR. SAM SPANGLET: Yeah. No quest to
13 find oil.

14 MR. ALEXANDER HYDMAN: It's -- it's not
15 the lucky strike, it's --

16 MR. SAM SPANGLET: No, but you don't have
17 to explore to find the oil.

18 MR. ALEXANDER HYDMAN: You don't have to
19 explore, so -- and -- and -- you know, that's why the R
20 minus C systems works well on oil sands and it's why you
21 can't pick a regime a -- as you might in other parts of
22 the world where if you can put all sorts of inducements
23 in to go -- for people to go and look for oil and once
24 they've found it, if they find a big pool, you can strike
25 almost any deal you want to have them produce it.

1 This is a business that requires constant
2 grinding away at -- at -- at costs and reinvestment and -
3 - and searching for the better way to make that R minus C
4 more positive. And so, you know, it's almost a persit --
5 perfect system to keep people forced on that goal.

6 MR. SAM SPANGLET: Good luck in start-up.

7 MR ALEXANDER HYDMAN: Thank you.

8 THE CHAIRPERSON: Judith...?

9 MS. JUDITH DWARKIN: Thank you. Thank
10 you, hello again. At the risk of getting into trouble
11 I'm going to think outloud a little bit -- in public for
12 a moment.

13 I'm trying to understand how the merchant
14 upgrading function in Alberta could influence bitumen
15 prices within the province and I'm thinking of -- and a
16 merchant upgrader is kind of unusual beast in the --
17 upgraders, so far, have been attached to upstream
18 projects and the combination, you know, provides a hedge
19 on the -- the price risk between the, you know, the
20 differential -- the light heavy differential. That's
21 sort of a -- a nice price hedge.

22 With a merchant upgrader and sub --
23 bitumen suppliers, I guess -- is it your expectation
24 you'll be con -- some -- doing some kind of a negotiating
25 of the sharing of the advantages of the, sort of, inbuilt

1 price hedge that an integrated project has?

2 MR. ALEXANDER HYDMAN: That's a possible
3 transaction. Our -- our preferred base case is -- is
4 just to buy and sell, but let me get back to your
5 original question. I mean, it's simply a supply/demand
6 thing to the degree that there is more upgrading either
7 integral or in merchant upgraders pulling on -- on the
8 bitumen market, then the less far away well -- well
9 bitumen have to be blended and shipped. So just net back
10 to market, closer demand is -- is better for Alberta
11 prices.

12 Secondly, bitumen can't be marketed on its
13 own, it has to be blended and -- and for most of the
14 production that has occurred in the past, the blend
15 component has been natural gas condensate.

16 Well, one (1) could say that when that was
17 overbid, which it has been, I remember in -- in late two
18 (2) and bit years ago, well, you know, we had eighty-five
19 (85) Edmonton par crude, Canadian dollars and we had
20 bitumen producers shutting in because the differential
21 was high.

22 And because the other differential that's
23 not so widely talked about, but it's there, is the
24 differential between Edmonton par and light crude and con
25 -- and condensate. Well, at least you could say in that

1 instance that although Alberta was losing on the bitumen
2 side, they are gaining on the -- the overprice of the
3 condensate.

4 Now, we're talking about bringing
5 condensate in from -- from offshore to create that
6 diluent, in fact, it's happening now, to -- to supplement
7 the supply of domestic condensate and that will come in
8 at a price and there will be no upward gain from Alberta
9 because that's not an Alberta produced commodity.

10 So how does the local demand help the
11 Alberta bitumen price? First, by basic supply demand;
12 more demand close to the source.

13 And secondly, by not requiring the diluent
14 to -- to get it to market.

15 And thirdly, the upgraders themselves can
16 produce synthetic diluent and perhaps a more fit-for-
17 purpose synthetic diluent than taking crude oil that's
18 been hydro treated down to a few PPM of sulfur and then
19 dumping it into something with fifty thousand (50,000)
20 parts per million of sulfur.

21 MS. JUDITH DWARKIN: Thank you.

22 MR. ALEXANDER HYDMAN: A counter -- a
23 counter intuitive blend, really.

24 THE CHAIRPERSON: Mr. Hydman, if you
25 could, in one (1) sentence, when I read the Federal

1 budget and Flaherty had described that the reason for
2 phasing out the ACCA was that the oil sands did not need
3 to be incented anymore.

4 Do you have a comment on that, one
5 sentence?

6 MR. ALEXANDER HYDMAN: Well, I don't
7 agree. I think the oil sands does need to be incented to
8 -- to continually invest and improve in improvements and
9 I think that it's unprecedented to pick out one (1)
10 commodity in a whole spectrum of -- of an industry.

11 There -- there -- lots of other
12 commodities have escalated in price, in metals as well.
13 I -- I think they're -- they're, you know, the -- the
14 fact that this was only in one (1) region is -- is one
15 (1) of the reasons why it was singled out. If -- if it
16 had been done across the country from BC to Newfoundland,
17 everybody would have been mad.

18 THE CHAIRPERSON: Okay, thank you, sir,
19 for your presentation today. I appreciate that.

20 We have, ladies and gentlemen, one (1)
21 more presentation. We have the opportunity to hear from
22 Mr. MaCinnis with CEPA, which is the Canadian Energy
23 Pipeline Association. Welcome, sir.

24

25 PRESENTATION BY CEPA:

1 members have a world-leading record of safe and
2 environmentally sound operating practices. Canadian
3 pipelines are part of an integrated North American
4 pipeline system providing for the energy needs of over
5 400 million people directly and indirectly creating
6 hundreds of thousands of jobs and generating billions of
7 dollars of revenues of four (4) governments.

8 Exports of oil and natural gas are a prime
9 reason for Canada's balance of trade surplus. A 2005
10 series study showed that through the development of the
11 oil sands alone, governments will benefit to the tune of
12 \$123 billion between 2000 and 2020. So the activity of
13 the oil and gas industry clearly spells opportunity for
14 all Canadians.

15 Demand for oil, as you know, is projected
16 to continue to increase and the positive news is Alberta
17 and Canada have the oil sands.

18 To benefit from the potential, however, it
19 will be necessary to develop additional pipeline
20 capacity. Canada's oil system is currently virtually
21 full with little existing room for expansion. According
22 to CAPP's 2005 Crude Oil Pipeline Expansion Summary,
23 about 600,000 barrels per day of new capacity will be
24 required by 2015. By about 2009 CEPA's estimates shows
25 that much of the new capacity will be in demand or oil

1 of Alberta's royalty structure against those from other
2 jurisdictions that we are competing against and it is
3 this type of systematic comprehensive review that we
4 think is most effective.

5 It is critical to reinforce the message
6 that we're competing against jurisdictions from around
7 the globe and it's vital that we do everything as a
8 province and as a country to improve our competitive
9 standing. In a comparison of economic regimes, Canada
10 ranked 79th out of 324 countries as a good place to
11 invest; that puts us on par with the US Gulf Coast,
12 Alaska, and Australia, key areas that we are competing
13 against.

14 But the risk to Alberta is also
15 increasing. The risks to the industry as well as to our
16 economy are growing each day. Indicators in the US
17 suggest that our principal export market may be
18 experiencing a slowing economy and home-grown risks are
19 no less of a threat.

20 The Government of Canada's elimination of
21 the ACCA has caused significant turmoil. Income -- their
22 elimination of income -- income trust tax benefits and,
23 likewise, the deductions on interest paid to make foreign
24 investments, all of these changes by the Government of
25 Canada have increased the risk significantly.

1 Oil sands costs are up -- labour,
2 material, also ,though, as a result of other policy
3 decisions, for example, climate change reduction programs
4 and all of this has seen costs rise two (2) to three (3)
5 times since 2001 while oil prices are up two (2) to two
6 and a half (2 1/2) times in the same period.

7 In addition to some of these risks that
8 I've mentioned between 2000 and this past January 1st,
9 the oil and gas industry has been paying federal tax on
10 income at a rate of 3 to 5 percent higher than the rest
11 of corporate Canada.

12 So in short the message is don't kill the
13 goose that's laying the golden egg. From a revenue point
14 of view over 30 percent or \$3.7 billion of total resource
15 revenues collected by the Alberta Government in the last
16 fiscal year were from oil sands royalty and lease bid
17 payments. Forty-two percent of provincial GDP is derived
18 from the oil and gas sector with about 15 percent or 23
19 billion the result of direct activity.

20 The wider indirect and induced impact of
21 the industry, though, is what I think is truly
22 remarkable. Through increased demand for geological
23 drilling, accounting, and technological services and
24 through induced activities such as injury -- increased
25 consumption and investment associated with higher incomes

1 and profits, the success of the oil and gas industry is
2 important to all of us.

3 So why does the pipeline sector care about
4 royalties? Well, obviously no produce -- no production,
5 no pipeline, so at the very least reduced production and
6 there's no need for the thirteen (13) oil sand pipeline
7 projects that our members have on the drawing boards.

8 We believe that Alberta's future growth
9 potential is limited without pipeline expansions.
10 Looking back to the '90s and the issue with respect to
11 limited markets for our natural gas, we saw that Alberta
12 natural gas was going to markets that were paying higher
13 rates than here at home and further takeaway capacity was
14 inhibited as a result.

15 Currently Alberta heavy oil is, in our
16 belief, hostage to really one (1) regional market in the
17 US, Pad 2 or roughly the states around Illinois and the
18 result is depressed prices or significant differentials
19 between heavy oil and -- and its counterpart as producers
20 are not able to ship to other markets which are paying
21 higher commodity prices.

22 So reduced market diversity combined with
23 higher costs and changing tax regimes will depress
24 production. As a result, Albertans will potentially lose
25 jobs and quality of life will be negatively affected.

1 However, it's CEPA's contention that Albertans have not
2 really asked for a royalty rate review so much as a
3 window into the resource development process. In fact,
4 we believe they're really looking for an answer to the
5 questions of what is the long-term plan, how do I
6 benefit, and does the policy and regulatory system
7 protect and promote my interests?

8 Our members hear consistently from
9 individuals across the province that while the benefits
10 of development might be accruing somewhere, it isn't to
11 them and it certainly isn't to their communities.

12 So what can be done? Well, we believe
13 that government, regulators, and industry can provide
14 Albertans with information on how the governments and
15 regulators do protect the public interest. We think that
16 they need to know how to engage in the regulatory process
17 when they're directly affected by a project and we
18 believe that Albertans also need to know about the
19 benefits of development.

20 Issues such as land access fatigue which
21 comes about as a result of forestry, pipeline, producing
22 companies asking for access to the same plot of land over
23 and over, can be addressed by developing integrated land
24 use planning guidelines and examining the potential
25 benefit of development corridors. And there's also a

1 need to improve the efficiency and effectiveness of
2 Alberta's regulatory process.

3 But above all, CEPA believes that Alberta
4 needs a game plan. Alberta must develop a policy
5 framework that charts a sustainable growth path, one that
6 maximizes the benefits of resource development while
7 minimizing the risks, strengthens our competitive
8 standing globally, and makes Alberta a beacon for
9 investment but, most importantly, a strategic plan that
10 will provide Albertans with an improved understanding of
11 what the goals are, how they benefit, and a belief that
12 their interests are being effectively protected and
13 promoted.

14 With that, thank you very much for your
15 attention and I invite any questions.

16 THE CHAIRPERSON: Thank you, sir.
17 Judith, why don't you lead us off?

18

19 QUESTIONS BY BOARD:

20 MS. JUDITH DWARKIN: Why, thank you.
21 Good afternoon.

22 You reference the golden goose's ranking
23 of 79 out of 324 regimes. What is your source for that
24 information?

25 MR. DAVID MACINNIS: The International

1 Energy Agency as well. It's a compilation of a host of
2 UN, IEA, and other measurement indexes. So they all --
3 my -- my point in trying to amalgamate all these various
4 indices is that they -- they all have Canada placed
5 somewhere close to that -- that point. Our record from a
6 competitiveness point of view is good, but there's room
7 to build.

8 MS. JUDITH DWARKIN: Does that ranking
9 reflect the oil sands regime, the conventional, or some
10 combination of both?

11 MR. DAVID MACINNIS: Both, yeah, and so it
12 -- it reflects royalty payments. It reflects lease terms
13 and everything that -- that goes into creating the --
14 the -- an apples-to-apples comparison between the ratios.

15 MS. JUDITH DWARKIN: And one (1) last
16 question on that piece of data. It's based on current
17 fiscal regimes and current market conditions --

18 MR. DAVID MACINNIS: Right.

19 MS. JUDITH DWARKIN: -- globally?

20 MR. DAVID MACINNIS: Yeah.

21 MS. JUDITH DWARKIN: I assume you're --
22 you're going to give us a written submission with that
23 reference?

24 MR. DAVID MACINNIS: Yes.

25 MS. JUDITH DWARKIN: Thanks.

1 THE CHAIRPERSON: Ken...?

2 MR. KEN MCKENZIE: We talked both now and
3 prev -- in the previous presentation a lot about ACCA so
4 I don't want to talk any more about that. I think we
5 know the issues, but can you talk to me a little bit
6 about the -- the tax treatment of pipelines themselves as
7 -- independently of the -- of the oil sands, in
8 particular write-off rates for pipelines.

9 Are there any issues there?

10 MR. DAVID MACINNIS: Yeah, we -- for
11 example, our members are competing for investment dollars
12 for their projects against other companies from around
13 the world but especially in the United States.

14 The US Congress has provided, for
15 example, an incentive to move the Alaska pipeline along
16 of an accelerated cost allowance which sees about --
17 which see that project written off a full eight (8) years
18 ahead of a comparable Canadian project. There's already
19 a discrepancy between Canadian and US capital cost
20 allowance rates. Initiatives like that further increase
21 the -- the discrepancy.

22 There -- there are issues with respect to
23 capital tax -- corporate tax, sorry, from the federal
24 point of view. We're affected by the -- the same issues,
25 as I outlined, that affect the producers but we are faced

1 with a much bigger problem when it comes to things like
2 municipal taxes. I use BC as the reference point.

3 The -- our -- just our members who are
4 operating in British Columbia are paying 81 percent of
5 the education and health portion off the municipal tax in
6 that province. The figures are roughly the same across
7 the rest of the country although the -- the share of the
8 burden in many other jurisdictions is somewhat more
9 equitably paid between electricity transmission companies
10 and our members. BC is the -- is the most glaring
11 example of -- of a discrepancy where our members are --
12 are picking up far more, we would suggest, than their
13 fair share.

14 MR. KEN MCKENZIE: Yeah, in terms of
15 Alberta, all the needer (phonetic) property I believe is
16 treated the same for property tax purposes.

17 MR. DAVID MACINNIS: Right, but again
18 there's moves afoot to change -- to open up
19 subcategories, to ensure or provide municipalities with
20 more flexibility.

21 We would suggest that when you're a --
22 somebody like a pipeline company whose asset is going to
23 be in the ground for fifty (50) or sixty (60) years and
24 relatively difficult to pick up and move to another
25 jurisdiction, we're a nice little target when it comes

1 to increased flexibility measures.

2 We don't espouse the fact that, you know,
3 we should be only putting in what we get out by way of
4 service from the municipality. We -- we don't believe
5 that. Having said that, we think that the -- the line
6 has been drawn a little further than what we would term
7 fair.

8 MR. KEN MCKENZIE: Thank you.

9 THE CHAIRPERSON: Evan...?

10 MR. EVAN CHRAPKO: You indicated we are
11 captive somewhat to restricted markets and then you also
12 said a risk includes having production shut in.

13 Would your members take it as their
14 responsibility or someone else's to open up other ports
15 and who should pay?

16 MR. DAVID MACINNIS: The way the pipeline
17 development model in Canada works today is that it's a
18 producer-led model. Producers need to provide contract
19 certainty to a -- a pipeline company who's proposing a
20 project and, in return, if the pipeline company crosses
21 that threshold which could be anywhere from 40 to 60
22 percent then -- then that pipeline gets built.

23 The -- you know, if the model were to
24 change, we would suggest that, of course, things like
25 tolls and tariffs would also have to change to show a

1 company -- to -- to reward a pipeline company that wants
2 to go it alone as it were to -- that -- that their risk
3 would be covered.

4 THE CHAIRPERSON: Sam...?

5 MR. SAM SPANGLET: No, I understand your
6 position. I don't necessarily agree but I understand and
7 I don't have any questions.

8 THE CHAIRPERSON: Okay. Andre...?

9 MR. ANDRE PLOURDE: Thanks. Thank you
10 for your presentation. Will we get a copy of --

11 MR. DAVID MACINNIS: Yes.

12 MR. ANDRE PLOURDE: -- of -- thank you
13 very much and -- and to second Judith's point in terms of
14 the references to the fiscal comparisons would be very
15 useful.

16 Now, I'll take you back to something I
17 think you said so maybe you can correct me you didn't say
18 this. You said that oil sands costs have been going up.
19 Then link this back to kind of climate change reduction
20 policies in a -- within a broader context of kind of
21 regulatory burden, right?

22 MR. DAVID MACINNIS: Right.

23 MR. ANDRE PLOURDE: So am I understanding
24 you correctly when you say that major cause of the cost
25 increases in oil sands that we're observing is, in fact,

1 increased regulatory burden over the last year, two (2)
2 years?

3 MR. DAVID MACINNIS: Yes, is the short
4 answer. It's a major cost -- I don't know. I -- I would
5 say, however, it is indeed a significant cost. Labour
6 and material increases have indeed probably, I think,
7 fairly formed a greater proportion. Having said that,
8 the regulatory complexity that we're faced, whether
9 within Alberta or between jurisdictions, is significant.

10 MR. ANDRE PLOURDE: Oh, I understand
11 that, but it's kind of the increase I'm trying to get at.

12 What has changed? You know, can you give
13 me some examples of stuff that has changed in the last
14 year or two (2) on the regulatory front that has, in
15 fact, contributed to this increase in cost?

16 MR. DAVID MACINNIS: What -- what's
17 changed, I guess, is the -- our -- in our belief is the
18 overall perception by Albertans that they're not getting
19 their fair share. There's a result in pressure on
20 regulators and policymakers, especially elected
21 officials, to ensure that if that problem does, indeed,
22 exist that it gets addressed.

23 As a result, there are increasing -- in
24 -- in a regulatory approval process, we're seeing a
25 marked increase in Information Requests, for example, to

1 clarify a variety of -- of issues. One that I can cite
2 recently is for a pipeline project, an oil pipeline
3 project.

4 The reason I emphasize that is because
5 natural gas pipelines move product via compressors which
6 generate greenhouse gases. Oil pipelines move product
7 via pumping stations which are electrically powered and
8 so that the greenhouse gas charge, if you will, is to the
9 electricity producer --

10 MR. ANDRE PLOURDE: Mm-hm.

11 MR. DAVID MACINNIS: -- not to our member.
12 None -- nonetheless, our member was our -- our oil
13 pipeline member was asked to provide, via an Information
14 Request from the regulator, the greenhouse gas emission
15 reduction plan.

16 MR. ANDRE PLOURDE: Mm-hm.

17 MR. DAVID MACINNIS: It took -- it added
18 an additional three (3) weeks to the review process for
19 that project. These sorts of things are starting to
20 become more and more frequent.

21 We're starting to see more and more
22 interventions in the regulatory process in Alberta, as we
23 witnessed a couple of weeks ago. Not all together
24 peaceful interventions, but interventions that are
25 becoming, bluntly speaking, I would suggest verging on --

1 on nuisance interventions rather than those strictly from
2 folks who are directly impacted by that particular
3 project.

4 MR. ANDRE PLOURDE: Okay.

5 MR. DAVID MACINNIS: So this stuff is --
6 is growing, adding time, increasing costs.

7 MR. ANDRE PLOURDE: So this is a time
8 cost, it's not necessarily an outlay cost?

9 MR. DAVID MACINNIS: It's a time -- it's
10 a time cost.

11 MR. ANDRE PLOURDE: Okay. That's great.
12 Thank you.

13 THE CHAIRPERSON: Thank you very much for
14 your presentation today.

15 MR. DAVID MACINNIS: Thanks.

16 THE CHAIRPERSON: Ladies and gentlemen,
17 that concludes our presentations for this afternoon. The
18 panel is going to make itself available for the night
19 session tonight that starts at 7:30. We do not have any
20 registrations at this time, but we are always holding out
21 that some Albertans are listening and hearing what we are
22 up to and that will come forward this evening.

23 Should there be no registrations this
24 evening, then we reconvene tomorrow morning at nine
25 o'clock and we have eight (8) presentations lined up for

1 tomorrow.

2 Those of you who have been here for the
3 full two (2) days, thank you for your interest and we
4 hope to see you again tomorrow. And those that have made
5 contributions, excellent and thanks very much.

6

7 --- Upon recessing at 4:11 p.m.

8 (NO EVENING PRESENTATIONS)

9 --- Upon adjourning at 7:45 p.m.

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13 Certified Correct,

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Ashley Guillemin, Ms.

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