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

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APPEARANCES

Anthony Marino	)Baytex Energy Trust
Donald Fisher	)Cerpro Energy Services
Duane Pendergast	)Canadian Nuclear
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	) Management Ltd.
Glenn Koester	) Wheatland County
Ken Sauve	)

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--- Upon commencing at 10:55 a.m.

THE CHAIRPERSON: Good morning, ladies and gentlemen. Welcome, everyone and on behalf of the Royalty Review Panel thank you for your interest in Alberta's royalties and tax regime. Your input is a very important part of our work and we appreciate your time and effort.

I'd like to introduce the panel for you. This is Ken McKenzie; next is Sam Spanglet. I'm Bill Hunter; Andre Plourde; Judith Dwarkin; and Evan Chrapko.

We have for your assistance in time management a young man on my far right that's going to help you with cue cards for time management purposes. He looks mild but he can be very aggressive.

Individual presenters will have five (5) minutes to make their presentation and then that will be followed by the opportunity of the panel to ask questions. Each organization has been allotted ten (10) minutes and then, again, the panel would like to have the opportunity to ask questions.

If you've brought a submission with you, we have various secretariat people in the room, plus you can drop it off at the reception desk or registration desk outside. If you haven't brought a submission and would like to make one, I must urge you to do so quickly. You can go to our website albertaroyaltyreview.ca and the closing day for public submissions is June 22nd.

A little bit from the safety perspective. We have exit doors at the back of the room and another set of doors to the right of the panel. In case of an emergency, please familiarize yourself with the closest exit and exit promptly.

While we're underway we'd appreciate if you'd shut off your Blackberrys and your cell phones so that we don't have any interventions on the opportunity to make a presentation which I need to do.

These proceedings will be transcripted to allow the panel to examine the contributions through the question period and, as well, allow us to post this on our website so that all Albertans can participate in the exchange.

If there's any media here today, I'd be happy to speak with you at the first available break. In the interim, I ask that you please respect the space of the presenters and the panel during the proceedings.

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

The first presentation this morning the panel will hear from Mr. Marino from Baytex Energy Trust.

If you're here, sir?

MR. ANTHONY MARINO: Yes, I am. Thank you and so it's a five (5) minute presentation?

THE CHAIRPERSON: Ten (10).

MR. ANTHONY MARINO: Oh, it's a ten (10) minute presentation? Okay, great.

THE CHAIRPERSON: Your choice.

(BRIEF PAUSE)

PRESENTATION BY BAYTEX ENERGY TRUST:

MR. ANTHONY MARINO: Good morning. Thank you for the opportunity to present. I am Tony Marino, Chief Operating Officer of Baytex Energy Trust, a Calgary-based oil and gas company.

I'm going to talk about a specific area and a couple of specific types of production in that area, the Peace River oil sands. There are a number of operators in this area, as that map indicates, and I just want to make clear that my remarks today represents the views of Baytex and they aren't coordinated with those of any other operator.

This area, as you're probably aware, is located about 300 miles northwest of Edmonton. There are a variety of bitumen-bearing horizons in this area. The most predominant in -- in terms of current development is the Blue Sky Sand.

This is an area with a very large resource. We've listed here 50 billion barrels originally in place and in coming up with that number, we've identified probably quite a conservative estimate of the ultimately commercially developable area. To -- to truly take into account the entire resource in the Peace River oil sands, I -- I think that the number would be a very significant multiple of this 50 billion barrels that is shown here.

To-date about 76 million barrels have been recovered out of the area; it's a very small fraction even of this relatively low number that we're listing here for the original oil in place. There is a significant, and as you'll see in a minute, growing amount of production out of the region. It still amounts to a -- quite a low recovery rate at present of the very large resource and this is one (1) reason that we believe that development in this area ought to continue to be encouraged by the Province.

It is a high-cost area. It's high cost because of the terrain in the area. It's high cost because of the relative remoteness of this area from services and from historical bitumen production.

In addition to those relatively high costs compared to other areas, we do have low oil prices. They're low because of the quality of the crude; it's very dense crude. It has a high sulfur content. It also faces significant transportation costs because the producer infrastructure is not yet fully built out in the area and also relatively high diluent supply costs.

As with the rest of the industry, I just want to point out that it is subject to some of the high cost inflation rates that have occurred and it's also subject to the margin squeeze that's provided by the higher Canadian dollar. With Canadian dollar denominated costs and, ultimately, product prices that are driven by the energy markets in the US and, therefore, essentially correlated with the -- the US or based on the US dollar, it has been a constraint on industry cash flows and rates of return.

This specific area I think offers some significant environmental advantages versus some of the other oil sands development areas. It is a non-mining project here. The depth of the Blue Sky Sand is about 6 to 700 metres. The processes applied are in situ both cold and thermal but there is a minimum of surface disturbance because of the -- because it is not a mining project.

I also want to point out that the cold production which has been developed in this area does offer advantages from a climate change perspective in that its greenhouse gas emissions profile is significantly lower because less energy is consumed in the production process.

And a final point on the amount of environmental disturbance, it's developed solely with horizontal wells reducing the amount of surface acreage required for the ultimate development.

To illustrate some of the pricing challenges in -- in Peace River, I've shown here a plot in Canadian dollars per -- per barrel of the actual wellhead prices received by Baytex over the last couple of years and these are, again, wellhead after transportation, after the introduction of diluent to make the product transportable, and I think the -- the relatively low prices illustrate the advantages of having the -- the industry expand the infrastructure in the area and reduce transportation costs to make development more profitable over the long term.

This is a graph of the production history in the area. I think it does illustrate that producers who have been investing in the area, the -- the lessees here have been responding to the oil sands royalty system, dramatic growth in cold production over the past few years and, in fact, a resurgence of thermal production as well.

The next plot is an illustrative depiction of the relative takes of the Province and producers for, you know, a typical development in this area. In my opinion, it illustrates that the Province under the oil sands royalty system does receive a significant fraction of the available cashflows from the project.

The provincial share grows rapidly shortly after the -- actually about timed with the end of the investment period. And, in fact, if you were to look at this on a discounted basis at the cost of capital, you would find that the provincial share would be even higher because, of course, the producers are taking the risk upfront and they're bearing those negative cashflows in the early stages so that it ends up being an even more significant share for the province when -- when looked at on a discounted basis.

I believe there are a number of advantages to the province on a financial basis from the oil sands royalty system as it exists today. I think that the program has significantly encouraged development of oil sands and I think Peace River oil sands area is an example of that.

I think that there are a number of developments that -- that would not have proceeded under, let's say, a conventional royalty system or under a higher oil sands royalty system, the rates of return would be substantially reduced.

And I think you can see from the previous profile, probably like many of the projects that you've looked at in other areas that, you know, further negative cashflows during the investment phase due to -- to higher base royalties would have a very significant impact on -- on rate of return. And in fact, in our analysis they did in the example that we showed here.

The second point, I -- I know the panel was discussing this earlier and got an explanation of what I meant there by dynamic scoring and, you know, a -- a very simple way of thinking of this is just that investor behaviour is going to change when the terms of a contract change.

And I would just encourage the panel to consider that the actual installation of projects won't be the same under a -- a new royalty system. Those changes in behaviour will, in fact, produce lower investment. I'm not -- I don't have an econometric model here to -- to represent the magnitude of this change to make a -- a quantitative prediction, but my own expectation is that something like the conventional royalty system would, in fact, result in lower provincial revenues than it would under the oil sands royalty system.

Even though the -- the statutory takes might be higher, the overall level of economic activity would be reduced, I believe and my guess is that, in fact, over the long-term the province would end up with less revenue.

I think -- the way I like to think of this when I consider the impact of the oil sands royalty system is, I -- I believe that here, and in other locations in Alberta, this royalty system has ensured that projects get installed.

When you have this period of very significant negative cashflows at the beginning of the projects, what -- what is important is that over the longer term the producers know that they will have a -- a, you know, an adequate rate of return and as long as the -- from the province's perspective as long as these projects get installed, they will stay on for the long term.

So the important thing is to get that capital investment made so that it becomes a source of revenue for the province for a very long period. We all know that there are -- there is really an exponential set of provincial priorities, healthcare for one, as technology improves, population goes up and the population ages, that alone, is going to be a significant requirement for the province to fund.

There are many other priorities as well and -- and these projects help do that. Royalties are the -- a tip of ic -- the tip of the iceberg as far as revenues. We got a list of -- of impacts on Federal through MD revenues shown here, land sale bonuses among them which occur at the provincial level and in fact are higher, I'm certain, under the oil sands royalty system and there are multiplier effects throughout the economy as that cash is -- is spent and re-spent.

And then in summary -- I know I'm out of time here, I'll -- I'll go quickly on this. I think one (1) of the most important points is that, while I am strongly supportive of continuing the oil sands royalty system on new leasing, I think that is important.

I think it's even more important that the existing implied contracts -- implied contracts that exist on these leases be maintained on leases that have already been issued by the provincial government. To change them at this point, I think would be unfair and it would send a very bad signal over the long term about the investment climate and stability in Alberta.

The -- the bonus bids, that the lessees made on these leases, to the owner of the minerals, to the crown, were based on a certain royalty system that they had to assume would be in place over the life of the contract and it -- it would be, I think, a big mistake to -- to change that now.

In the same vein, producers have made investments after the bonus bids, significant capital investments for equipment and drilling in these areas based on that same royalty system and I think that a whole host of parties would be damaged were these contracts to be changed.

It would be the companies that invested, but also the individual investors in those public companies who had as well planned on this royalty agreement being maintained for the life of the -- the lease, of course, employees, suppliers. And I think over the long-term it would significantly damage the economic prospects of the province.

THE CHAIRPERSON: Mr. Marino, can you give us a last sentence.

MR. ANTHONY MARINO: I can and that is that being a somewhat lower return province as some of the CAPP data had -- Western Canadian Sedimentary Basin, as CAPP has demonstrated means that volatility and certainty -- volatility needs to be lower in this province and the -- the certainty of contract and investment returns needs to be higher to counteract that lower return and make sure that investment continues.

THE CHAIRPERSON: Thank you, sir.

MR. ANTHONY MARINO: Thank you.

THE CHAIRPERSON: You will allow us a few questions?

MR. ANTHONY MARINO: Yes, sir.

QUESTIONS BY THE BOARD:

THE CHAIRPERSON: Judith...?

MS. JUDITH DWARKIN: Thank you, good morning. You made the comment that the important thing is to get the project installed which, to me, suggests that where you're most concerned about any potential changes to the current generic royalty regime on oil sands in with respect to the 1 percent gross royalty upfront which enables payout before a more stringent royalty kicks in?

Because it really is that 1 percent, would you agree, that gets the project installed or what?

MR. ANTHONY MARINO: I -- I -- that's -- that's a very good question. I -- I would say that it is both, it is both the pre-payout royalty and its net profits interest afterwards because, of course, you know, both components are factored into the forward-looking economics --

MS. JUDITH DWARKIN: Mm-hm.

MR. ANTHONY MARINO: -- perspective economics of the companies when they evaluate a project. So they -- they look at both periods and they're -- they're both important, but a change, an increase in either of them, I think, would result in fewer projects getting installed.

And what I -- the -- the point -- I don't think I'm -- I probably didn't make it very clearly, but the -- the point I was really getting at with respect to getting the projects installed is that once you can get these projects in from the province's perspective and -- and meeting its -- the -- the requirements of the people of the province, the province's long-term liabilities for a host of items, the important thing is to make sure the project gets in there in the first place and is cranking out this cashflow for the province over the long-term.

The -- whether that project gets in or not depends both on the -- on the pre-payout royalty percentage and the NPI, the -- essentially the NPI after -- after payout.

MS. JUDITH DWARKIN: But would you say that the 1 percent to payout is a very attractive feature in terms of the getting things installed? I know some other presenters have -- have characterized that as a particularly brilliant aspect of the current regime in recognizing the investment profile of these kinds of investments and their production characteristics.

MR. ANTHONY MARINO: Yes, I -- yes, I do agree with that. When you -- when you see the cashflow profile it is important not to make that negative, you know, period at the beginning any deeper or longer than it is currently, so, yes, I do agree with that.

And -- and I -- just going -- my -- to explain the previous point, I think it's very important that when a certain contract exists with these terms that it, you know, that neither portion of it be changed, you know, for a -- for a contract that's already solemnly agreed to by the -- the two (2) parties.

MS. JUDITH DWARKIN: May I ask one (1) more?

THE CHAIRPERSON: Go ahead.

MS. JUDITH DWARKIN: And just one (1) more question. You noted your illustration on producer and provincial shares on -- on the oil sands royalty system, your two (2) cumulative curves over time is that if you discounted those shares, the government shares even greater.

In principle, do you -- do you -- would you distinguish between the discount rates that would be used for the -- the government share versus the private company's share?

MR. ANTHONY MARINO: You know, I think actually that would probably be quite appropriate. You know, it would be appropriate for several reasons. The first is that the companies are bearing the risk, the -- the government share that involves, I think, less volatility of returns and -- and therefore lower risk, so I think that's valid.

And, you know, I -- I do think that, in general, when -- when governments are looking at the present value of, you know, of asset streams they don't tend to use the rates of return that industry requires to make investments, so, that would be appropriate.

If you did that than the -- the sharing would be even -- the -- the fraction going to the government would be -- to the province would be even higher.

MS. JUDITH DWARKIN: Thanks.

THE CHAIRPERSON: Ken...?

MR. KEN MCKENZIE: Yeah, thanks a lot.

Well, I tell you, my heart got going when I saw dynamic scoring and then you used the word econometrics in your presentation, so I'm not quite sure. You know, it gets an economist all excited, so I'm going to use a word since you've opened this up. And the word is elasticity.

Your -- I know you say you don't have a econometric model or you haven't run this sort of thing, but are you familiar with any sort of elasticity estimates for the oil and gas investment with respect to fiscal regimes, any studies of that nature?

MR. ANTHONY MARINO: Actually I have -- yeah, I've never read such a study quantified.

MR. KEN MCKENZIE: Yeah, okay. I -- I -- there are a few out there, but they're few and far between unfortunately, so it does make dynamic scoring very difficult to do as you...

Just moving on to the -- the contract idea, I mean, you made it clear in your presentation that you don't mean contract in a legal sense, this is an implied fiscal contract, in a sense, that's between -- I -- I mean, there's not two (2) parties sitting down at a table and negotiating and signing a contract, right?

Rather what we have here is a fiscal system that's in place, right?

MR. ANTHONY MARINO: Well, yeah. In

answer to that question, you know, not being a -- not being a lawyer, I'm an engineer is my background, but I actually made the inquiry of a couple of oil and gas lawyers about whether it was legally a contract or not and, you know, they were -- they -- they were actually both of the opinion that in practical terms it was and the technical definition -- 'cause I believe the -- the leases refer back to certain legislation.

And of course, the -- it -- it doesn't specify, I guess, enough to say whether it would technically on every basis qualify legally as a contract, but wh -- when -- I -- I can tell you that when the investors and the -- in these leases, when the oil companies, oil and gas companies take a look at -- at oil sands, PNG, other leases, they very much view it as a contract.

And, I mean, what it really is an agreement, it's an understanding between the parties and, you know, I can tell you that when -- when my company, for example, enters into any kind of agreement, whether it's a written agreement or an oral agreement, we live up to that agreement. And that's what we're -- that's the way --

MR. KEN MCKENZIE: Sure.

MR. ANTHONY MARINO: -- we're kind of

using it a more lay sense or a practical sense, the way the actual participants understand it.

MR. KEN MCKENZIE: I mean, would you agree with the democratic principle that one (1) parliament should not be able to tie the hands of the -- another parliament in terms of policy? I mean, it's a pretty well established tradition in democratic governments.

MR. ANTHONY MARINO: Well, I guess my -- and again, political science probably wouldn't be my strong suit either, but as well as, you know, really the technical, legal aspects, but, the way I would view it as that when -- when an individual or a company is making a decision about an investment, they would view this -- I -- I can tell you how we would view it.

We would view it as a contract, as a solemn agreement between the -- between the lessor, the owner of the resource and the company seeking to develop it. We -- we would view it as an agreement that would be a -- certainly an existing contract without any question.

It would be an agreement that both parties are going to stick to. Now, I actually think that it's a very good system economically for the province and I think for the future it ought to be continued as well, --

MR. KEN MCKENZIE: Sure.

MR. ANTHONY MARINO: -- but in -- as a -- as a layperson and -- and as a kind of a long time participant in the industry, there is no question that the companies think that the con -- that it is a contract that's going to be honoured over the long term, for the -- for the life of the contract.

MR. KEN MCKENZIE: Just -- just one (1) more quick question, Bill, and then I'll -- I'll pass it -- it back. Would you consider a change in the corporate income tax rate a violation of that contract?

MR. ANTHONY MARINO: The --

MR. KEN MCKENZIE: Given that it also impacts upon these projects and I would -- I would tell you that there's been several changes in corporate income tax rates over the last several years.

MR. ANTHONY MARINO: Yeah, taxes kind of go up and -- and go down over time.

Actually, I -- I think there is a distinction in my mind between the two (2) because -- although I guess you could have a whole -- if you -- if you took it to its, you know, to its most extreme extent, any type of agreement at -- between, you know, any set of parties in the -- in the economy could have an impact on an individual project and I -- I'd say only in that sense could you do it.

The income taxes are different, I think, in that the -- the income tax terms are not, you know, they're not referenced in this agreement. And the -- I think practically, too, everybody understands that there -- there could be a change over time in -- in tax rates for everybody in the economy.

MR. KEN MCKENZIE: There are -- there are provisions of the Income Tax Act that provide specific -- refers specifically to oil sands, and a really good recent example would be the ACCA.

MR. ANTHONY MARINO: Which was also, you know, also probably had a negative impact and would -- would represent a bit of a double, you know, negative synergistic affect on the development of the industry and the long-term revenues for the Province.

So I would agree about that but, again, what I'm saying is that in this -- in this lease, the way the bidding is done, the companies see a certain set of terms and they go out and they run their discounted cashflow economics and they determine how much they can bid for the lease based on the terms that are in there.

And it happens every day in the industry because there are lease sales continuously. Those bonus bids, and each development decision that occurs thereafter, they are based on the terms that are -- that are referenced in the leases or incorporated by reference in the leases.

So, yeah, actually I do draw a distinction. I -- I really do, between lease terms and -- and income tax rates. Both may affect project economics and I -- I -- but -- but, certainly, I think the people -- in my experience in the industry, people are responding to the terms in the leases.

Many companies, depending on their tax situation, may run a before-tax set of economics as well.

THE CHAIRPERSON: We're going to move on to --

MR. ANTHONY MARINO: Okay.

THE CHAIRPERSON: Evan...?

MR. EVAN CHRAPKO: Baytex is producing now, right? Is this chart your production?

MR. ANTHONY MARINO: What we did -- we didn't -- we didn't want to get to the -- to the level of specificity that like identify a certain location, so we took more of a example project from the area that would probably incorporate the results of many operators.

MR. EVAN CHRAPKO: Yours included?

MR. ANTHONY MARINO: Yes. It -- it could be -- we would weight a portion of ours in there, but there's a whole range of production results in the area.

So it's --it's meant to be more indicative of the -- of the shape of the curve --

MR. EVAN CHRAPKO: So the coal production method you reference isn't proprietary to Baytex?

MR. ANTHONY MARINO: Is it -- no, no, it's not proprietary. No, sir.

MR. EVAN CHRAPKO: It's used elsewhere. All right. Do you consider Baytex to be an oil sands player on the margin of viability or can you weather deep cyclical commodity prices? Deep troughs, say?

MR. ANTHONY MARINO: We -- you know, it's our -- it's our intention to -- to weather the volatility that we forecast in the industry. We intend to be a long-term oil sands players.

We -- we've been successful at it and we do recognize that there's going to be volatility in pricing, there's going to be volatility in costs and, based on our expectation -- our observation of where they've been, our expectation of where they're going to be in the future, yes, we -- we see ourselves as a long-term oil sands player. No question.

MR. EVAN CHRAPKO: Okay. And final -- just to finish up on Ken's line of inquiry, you seem that you just -- you made an eloquent argument for not lowering royalties any further under this solemn contract. You wouldn't want to see things lowered further --

MR. ANTHONY MARINO: We're willing --

MR. EVAN CHRAPKO: -- in terms of royalty?

MR. ANTHONY MARINO: -- when we sign a contract, we -- we intend to stick with the leases that we've entered into for sure.

MR. EVAN CHRAPKO: Thank you.

THE CHAIRPERSON: Sam...?

MR. SAM SPANGLET: Good morning.

MR. ANTHONY MARINO: Thank you. Good morning.

MR. SAM SPANGLET: Where is your -- where is your product going? Where are you selling it?

MR. ANTHONY MARINO: We sell into several different markets, medium sour markets in central Alberta and heavy markets in -- more in the southeastern part of the Province. It depends on where we can get the highest pricing net of transportation.

MR. SAM SPANGLET: How -- how is the product priced? How is the -- is there a sort of a benchmark? Is it -- is it posted? How is priced?

MR. ANTHONY MARINO: You know, the -- the best way I could describe it is that, you know, there is a -- for heavy oil, there is -- there is a benchmark that reflects a majority of the streams which is Lloyd blend. Lloyd blend is not really a -- a bitumen or a heavy oil, it's a combination of bitumen and diluent to make it flowable and to meet this -- you know, these viscosity and density specs that exist in the market.

And so then to get the wellhead price for Lloyd blend, you have to take -- or for -- for heavy oil at the wellhead, you have to take Lloyd blend and you have to deduct out the cost of the diluent that you put in. And that's really how you arrive at a wellhead price.

You know, the Seal (phonetic) or Peace River Oil -- Peace River Oil Sands bitumens have their own specific pricing characteristics --

MR. SAM SPANGLET: Yeah.

MR. ANTHONY MARINO: -- which means they -- they don't exactly track Lloyd blend. Crude has a lot of sulphur, it's pretty heavy, you know, so it -- it might take more diluent and it's -- to -- to get to the specs for blend. And diluent -- diluent supplies also may be different in the area which they, in fact, are. So it's -- it's pretty complicated, but basically you take blend and you take out the cost of the diluent.

MR. SAM SPANGLET: Thanks.

THE CHAIRPERSON: Andre...?

MR. ANDRE PLOURDE: Thank you. Thanks for your presentation and thanks for the material and maybe I can follow up on this question of -- of pricing of -- of your product.

And slide 4, you had product pricing. And -- and I know you mentioned it and I -- I missed it and I apologize. Does this net out the diluent part of the cost in here?

MR. ANTHONY MARINO: Yes, sir, it does.

MR. ANDRE PLOURDE: So this is a barrel of product?

MR. ANTHONY MARINO: This is -- this would be a barrel at the wellhead.

MR. ANDRE PLOURDE: Of product?

MR. ANTHONY MARINO: Of raw crude at the wellhead.

MR. ANDRE PLOURDE: Great, okay, great. How is the diluent priced?

MR. ANTHONY MARINO: Well, the -- the diluent is -- there's a couple of different products that can be used to dilute the -- the --

MR. ANDRE PLOURDE: Right.

MR. ANTHONY MARINO: -- raw to get it to -- to a saleable product, transportable and saleable product. The -- the most common is a -- what we call a C5 plus, which means it's a -- it's a live fraction of a crude, a pentanes plus, some of it's recovered from natural gas, some of it would be akin to maybe condensate from a high gravity oil well or from a wet gas well.

So C5 plus is the most common diluent. It generally goes at a premium, a varying premium, to Edmonton par crudes which are more of a black oil. An alternative diluent source, depending on where you're at, is sometimes like crude itself, not this C5 plus which is kind of the light end of the -- or the, you know, the lighter end of a -- a crude.

But it would take -- when you use a light crude in lieu of condensate, it takes more of it on a volumetric basis to -- to make it a transportable and saleable product. So there's a whole range.

MR. ANDRE PLOURDE: Right.

MR. ANTHONY MARINO: The -- the light crude's going to go basically like a light crude and that particular location would -- the -- the condensates, the C5 plus, they go at a -- a premium to the -- to the light crudes.

MR. ANDRE PLOURDE: I guess I'm sorry if I wasn't clear. What's the mechanism? How do we determine, how do you determine the price of diluent, what -- whatever it is that you pick?

MR. ANTHONY MARINO: It's -- it's what we pay for it. It's what we can get somebody to sell it to us for and we try to get the lowest price to buy it for that we can, but it's a -- just a market determined price for that particular crude in that particular location.

MR. ANDRE PLOURDE: Okay, thanks. You mentioned a lot about getting projects started and in the ground and those kind of things.

Do you think of this largely as a timing issue, so it doesn't happen this year, it happens next year, it doesn't happen next year, it's five (5) years down the road?

Does it matter that it all happens early, is it okay to think of this as a process that would take some time?

MR. ANTHONY MARINO: I -- I actually believe that it -- from -- from the province's perspective, I think it's quite important to get the projects installed now. One (1) factor that is militating against the long-term economics of the basin is this runup in costs.

I think that the longer the projects are delayed, the lower the probability that they'll be installed; therefore, fewer projects on an expected basis over a period of time.

Secondly, because these do tend to produce a -- a nice stream -- the oil sands in general do tend to produce a nice stream of royalties over a -- at production of royalties over a long period for the province, I think that the earlier they can be installed, it'll provide more wherewithal for the province and, you know, even for a -- I -- I would think, even for a government, it would quite desirable to have a higher present value as well 'cause there would have to be some discounting applied to even a provincial or any -- any governmental stream of revenues.

Even if it's at a lower discount rate than industry might require or might -- might use in their discount analysis.

So for all those reasons, the probability of installing projects, the ultimate number, the period of time in which revenues are available for provincial priorities and the present value of that stream to the province, I -- I do think it's important to get them in earlier.

MR. ANDRE PLOURDE: But I think the two (2) things on that, the runup in costs is relatively recent. It's something that's happened because there's been a long for many years declines in per barrel costs of installed capacity and running capacity in -- in oil sands.

And we've heard from a number of presenters that actually the fact that all of the development is occurring at once is, in fact, helping to push up the costs. Any reaction?

MR. ANTHONY MARINO: You know, I -- I -- I think that it is -- to come back to the beginning part of it, the statement that for some period the oil sands' development costs and, in fact, for the industry in -- in general in -- in, not only Western Canada, but North America, I'd say, and probably for the whole world, there was a period in which costs did, in fact, come down dramatically.

And, you know, those -- those costs began coming down probably in the late '80s. They continued to decline pretty much throughout the '90s before starting to go up in, you know, kind of after the 2000.

And the reason I think that happened was that there was so much service capacity that was under-utilized at the beginning of that period that that lead to a reduction in costs.

And the second thing that happened was that there were -- there were many, many technological improvements. And I think, you know, I guess you could think of it as the lower-hanging fruit was taken advantage of during that period.

And I think, actually, that's why you had that -- that much lower cost period. I think that, you know, as far as the number of projects being undertaken at one time, you know, while certainly a valid point as well, the -- what the Province is really going to have to adjust to, I think, is getting the -- is doing the training to develop capacity to take advantage of all the human resources that are, in fact, to some -- there are many human resources that are under-utilized in the Province. And that is the key to being able to undertake these projects.

I don't think that the solution is to push these -- try to -- try to get companies to push these projects out for a real long period of time. It's -- that -- when you come back to kind of like the final points about creating a stable and, you know, reasonable, competitive business environment, that's the type of thing that definitely seems, you know, to companies to -- to reduce the desirability of investment in a particular area.

MR. ANDRE PLOURDE: Okay. Thanks. One last thing, in terms of sanctity of contract that you mentioned earlier, when developers go to the EUB to get approval for a project, they would usually kind of present cost estimates of -- of what they consider the project to cost and all of that kind of thing.

If, kind of after the fact, these costs are much, much higher, should I think of this as a contract issue as well or would you differentiate that?

MR. ANTHONY MARINO: I would certainly differentiate it. You know, the -- the contract can only provide for the terms that are listed in the contract. And not everything is foreseeable. Many things may change over time.

Product prices may change over time, too, and they have gone up a lot as -- as costs have gone up. So, you know, there are still -- there are still risks that have to be borne on the part of both parties who -- who sign this contract.

And the -- the terms, however, that are specified in the contracts are the only ones that are known and are, you know, seemingly controllable by the parties when they enter into them.

So I think there actually is a big distinction. The -- the companies who make these big investments, they actually do bear very, very significant risk. You know, they bear cost risks, they bear product price risk and what I'm saying here is that I -- I think it would be a mistake, it would be unwise, it would be really unfair to introduce other elements of risk that aren't foreseen at the time the contract is entered into.

MR. ANDRE PLOURDE: Okay, great, thank you.

THE CHAIRPERSON: So, if the professor in the next room has stocks in energy companies and he wants to watch his investment, he can look at posted oil prices? WTI or whatever method is used.

How do Albertans, as a -- as an aggregate investor in the energy development of this Province track and watch bitumen evaluations, if that's the way the oil sand royalties are going to be focussed on?

MR. ANTHONY MARINO: Sir, the only way I can think of doing it is kind of the way I have done it which is by looking at the revenue -- the actual revenues received and the revenue projections by the Province.

I mean, I think that would probably be the -- the best way to understand how much is coming in from the -- from the projects that I can think of.

THE CHAIRPERSON: Okay. And the last question is should you -- would you expect the Alberta Government to review its royalties taxes and fees frequently, infrequently, not at all, in lieu of the contractual discussions?

MR. ANTHONY MARINO: You know, with -- with -- with respect to, you know, contracts that are going to be entered into in the future, I do think it's appropriate for Alberta to, you know, for any -- for any party, the Province, the Crown being one party to a future contract, I think it's fully appropriate for the Province to evaluate how, you know, how its economic policy -- and this is one component of it -- is affecting -- is -- is going to affect the future of the Province.

You know, how it's going to affect its revenues. How it's going to affect investment in the Province. I do think that's appropriate. I think what the Province came up with in the oil sands royalty system was a -- was an excellent job. It's a huge success story.

And it's -- it's, I think, creating really important benefits for the people of the Province. So I think they did a good job and I -- I certainly think it's an intelligent thing to do, you know, a responsible thing to do for the Province to take a look at the -- at the program, you know, going forward at any time.

I do quite firmly believe that when parties make an agreement, they ought to stick to it. And I would -- I would recommend, based on what I have seen, that the royalty -- the oil sands royalty system stay in place. I don't think -- I don't think it's broken. I think it's worked very, very well so I think it's a good program for the future.

THE CHAIRPERSON: Thanks.

MR. ANTHONY MARINO: Okay.

THE CHAIRPERSON: Thank you for your presentation today. We really appreciate it.

MR. ANTHONY MARINO: Thank you very much. Thanks for the very good questions.

THE CHAIRPERSON: Have a great day.

Next the panel has an opportunity to hear from Mr. Fisher from Cerpro Energy Services. If you're here, sir?

PRESENTATION BY CERPRO ENERGY SERVICES:

MR. DONALD FISHER: I am. Good morning.

THE CHAIRPERSON: Good morning, sir.

MR. DONALD FISHER: First of all, my presentation will be significantly less technical and so I hope you'll bear, perhaps, with comments that you've heard from other people in Alberta. I'd like to, as well, apologize for Peter Pelesky (phonetic) who is the president of our company. He's actually at a shallow gas pre-job meeting this morning, so could not attend and I am here.

Our company is in the downstream service sector. We build pipelines and we do facility work. I've read some of the available materials and I want to state at the outset that I claim no expertise with respect to royalties and taxes.

And that might lead you to wonder why I'm here which would be an appropriate question. But in reading some of the background materials which I took the time to read, the Government background information paper stated, and I quote:

> "The purpose of this review is to ensure that Albertans are receiving a fair share from energy development through royalties, taxes and fees."

And what struck -- struck me about that was I felt that that's too narrow a question. Or better put, really I think the question must almost -- must always be asked bearing in mind that energy development fuels the economic engine which feeds Albertans.

It creates business opportunities for Albertans, as it has for myself and my partners. It creates employment for people in many, many communities across Alberta.

The third-party sales and job opportunities and businesses that they spin off are absolutely huge. And that multiplier effect, I don't think can ever be forgotten or put aside.

Needless to say, all of these things as well result in additional tax revenue for the Province and, indeed, the Federal Government.

Now, you probably know that the first gas well was discovered near Medicine Hat in 1883. The CPR, of course, was drilling for water for one of -- well, for their steam locomotives and, of course, they hit gas. And I came across a comment in a paper written by Mickey Gullis (phonetic) called The Alberta First Natural Gas Discovery. And he, in turn, quotes Dr. George Dawson of the Geological Society of Canada who wrote in 1886, and I quote:

"It is probable that a similar supply will be met with over a great area and that it may become, in the near future, a factor of economic importance."

And I think back a hundred and twenty (120) years how right he was and here we are today and we continue on and it is of great importance.

Now, in reading the background materials, again, and I'm referring to the government royalty background information paper, one (1) of the statements and I -- I want to quote it, I -- I don't agree with and

-- and that simply was this. The statement was:

"The relationship between the level and structure of royalties and how much development occurs in the oil and gas industry is difficult to predict."

And I disagree with that. I think the higher the royalties, the lower the development. Oil and gas development isn't just provincial, it's international and investment capital follows returns for shareholders.

I was reading last week the Deloitte Oilfield Service Newsletter for June 15th and what it said was that the majority of service and supply companies are reporting lower earnings and returns in the first quarter of '07 than they did in the first quarter of '06.

They went on to say that the second quarter returns are expected to be lower than the first quarter returns and that was attributed to the low utilization rate with respect to drilling rigs and as I saw from their report, the June 8th utilization rate in Alberta was running about 21 percent.

Now, our shareholders in our -- our small company are all local. We could've chosen to invest anywhere on the stock market outside of Alberta, but we're born and raised here and we chose to invest in

Medicine Hat. We've been at it for about just over three (3) years now and we employ two hundred (200) to two hundred and fifty (25) people in our business and we're only one (1) of many, many similar businesses in Alberta.

Our employee salaries and third-party costs would run about $27 million last year. And I say this simply, again, to reinforce how important not just the royalty and tax regime is but, really, the business that it creates and the work and jobs that it creates.

The -- these are all well paying jobs and a lot of the local economies especially in the smaller sentence -- I'm sorry, especially in the smaller centres are absolutely dependent on that work. So what happens when that work goes away?

Well, for a number of reasons it's been a slower spring and weather as well, by the way. I was speaking to one (1) of our employees and he told me that he was saving for his -- his wedding which was coming up shortly, the problem was that his paycheque for the last two (2) weeks didn't cover his truck payment.

I -- I'm sure you've heard many, many examples like that, but -- but that brings it home and I think you have to always remember that there is a human face to the work that's created here. So if I can con -- conclude in this way, I mea -- in my view, oil and gas development does fuel the economic engine which is Alberta.

Royalty rates directly affect development and development or lack of it directly and significantly affects Albertans and impacts them in a very immediate way. And not just through royalties and taxes, but really through the opportunities it creates for other businesses and for the employment that they, in turn, generate. Thanks.

THE CHAIRPERSON: If you will allow us a few questions?

MR. DONALD FISHER: Certainly.

QUESTIONS BY THE BOARD:

THE CHAIRPERSON: Evan...?

MR. EVAN CHRAPKO: Thanks for your presentation. In response to all the increased activity that we've seen recently, how many new service contractors wou -- have been created in the last five (5) years as far as you know?

I know you -- you probably don't have the numbers, but we've heard from your association, maybe you know number of new members or percentage increase in your region?

MR. DONALD FISHER: I -- I couldn't speak to that with any certainty. There certainly -- we've -- we're just over three (3) years and there would be a couple of others, but I heard as recent as this week that one (1) of them actually will be closing their doors at the end of the month and they were a -- a fairly large employer in the Medicine Hat area, in the two (2) to three hundred (300) employee range.

MR. EVAN CHRAPKO: So getting back to where it was in terms of numbers X years ago?

MR. DONALD FISHER: Mm-hm.

MR. EVAN CHRAPKO: How many do you think there should be five (5) years from now?

MR. DONALD FISHER: You know, that -- that's hard and -- and I'm -- I'm not trying to sidestep your question, but I -- we're there to provide a service and if the demand is there, we try to fill it and -- and -- but so will other people.

And it's that demand which creates the jobs and the opportunities for other people and I think to the extent that the royalty or tax structure or combination discourages further development, then those opportunities will not be there for all of the people on the ground.

MR. EVAN CHRAPKO: So it's a supply-demand equation as far as you're concerned?

MR. DONALD FISHER: Yes.

MR. EVAN CHRAPKO: And what role do you think world energy prices play in that?

MR. DONALD FISHER: Well, I think it's fairly significant. You know, the -- the reserves seem to be on the decline and gas is more continental, you know -- until liquid natural or -- or compressed gas comes along. So with the declining reserves, I don't see the demand falling off.

MR. EVAN CHRAPKO: Okay. And thanks for your explanation on the low rig count that we've heard from so many others. We're also told by people like you that there's been a severe weather situation this particular spring.

MR. DONALD FISHER: And that's absolutely true and, you know, we track our position daily. And I can tell you on Monday after a very rainy weekend -- and we have crews working south of Calgary; we have crews down at the American border; we have crews at Provost, around Medicine Hat. Well, we lost twenty-four thousand dollars ($24,000) on Monday, primarily because of the weather.

But it could be because of other things at some point and that's really what we're -- we'd be fearful of.

MR. EVAN CHRAPKO: You need to mentor those new, young employees buying all the big pickup trucks and --

MR. DONALD FISHER: Mm-hm.

MR. EVAN CHRAPKO: -- incurring payment streams to watch the weather too.

MR. DONALD FISHER: Well, that's true. And, you know, I -- it's not my money and I don't want to tell them how to spend it and --

MR. EVAN CHRAPKO: As a mentor --

MR. DONALD FISHER: I'm old enough to know that our -- our expenses seem to track our income and it's a lot -- it's not as easy to control your income and it's a lot easier to see your -- I'm sorry. It's not as easy to control your expenses when you're locked in, and your income can change very quickly. So people can be at risk.

MR. EVAN CHRAPKO: I think that's a fundamental point on a lot broader scale too.

MR. DONALD FISHER: Absolutely it is.

THE CHAIRPERSON: Sam...?

MR. SAM SPANGLET: Good morning.

MR. DONALD FISHER: Good morning.

MR. SAM SPANGLET: The activity level -- we heard it from other people too, and I'm aware of it personally, is that it has dropped in the last quarter or two.

MR. DONALD FISHER: It has, yes.

MR. SAM SPANGLET: Yet across the border, it continues to increase with the same price of natural gas and oil.

MR. DONALD FISHER: Mm-hm.

MR. SAM SPANGLET: As I said yesterday, I am starting to get an inferiority complex with the Americans. How come we cannot do what they do? Why is it that it drops here and keeps going up there? Can you explain that?

MR. DONALD FISHER: That would take someone with far greater knowledge than me to explain.

You know, part of the demand has also resulted in high-paying jobs for a lot of people. It's very difficult to go to someone and say things are slowing down and guess what, we can't pay as much as we did before. You know, that's usually what I see in the service industry is that that slack, if you will, is taken up in the middle and that you're not doing as much business but your fixed costs, your costs for employees, you're not cutting and it's coming out of the middle.

MR. SAM SPANGLET: Do you think that productivity is one of the reasons?

MR. DONALD FISHER: No, I think -- from what I hear from people on the ground that -- you know, the people we have certainly in our company are absolutely first rate. There are a lot of new people coming into it because of the opportunity; there's a huge obligation to train them and keep them safe, but they're great opportunities for them.

I hear across the border in Montana that things just don't run as safely as they do here and that there is not good infrastructure from government on down, and for those reasons they have difficulties developing, and companies at time don't want.

Frankly, sitting in Medicine Hat, we're happy to go into Saskatchewan if there's work there. And we do. And if we could go to Montana and there was work down there, we would. You know, it's just the way it is.

MR. SAM SPANGLET: Thank you.

THE CHAIRPERSON: Andre...?

MR. ANDRE PLOURDE: Thanks. Thank you for your presentation.

MR. DONALD FISHER: Mm-hm.

MR. ANDRE PLOURDE: You didn't mention to us any kind of recommendations in terms of what do you think should happen to the royalty system --

MR. DONALD FISHER: Mm-hm.

MR. ANDRE PLOURDE: -- as part of our mandate is to look at that? Anything you would like to leave us with on that?

MR. DONALD FISHER: Well, it would be more general and not technical, and it would be this. That large companies are accountable to their shareholders and -- and capital follows investment returns.

And to the extent that there are greater returns and -- and I appreciate there are other factors in other jurisdictions, then that will obviously result, in my mind, in less activity here and not only less royalties which is, I know, really your mandate but from our concern it will result in less work for us and the people who work for us.

So it's a matter of always being -- having either an incentive or being very, very competitive, because why would they stay here if they can get a better return somewhere else?

MR. ANDRE PLOURDE: Great. Thank you.

THE CHAIRPERSON: Ken...?

MR. KEN MCKENZIE: I think my colleagues asked most of the questions I would have, but I do want to thank you for the insights you've given us and, in particular, with the respect to the service supply sectors. So, thanks very much.

MR. DONALD FISHER: Well, I appreciate that, and I appreciate you're used to hearing probably more technical statements and comments but I wanted to reiterate that there is a human face to it, so.

THE CHAIRPERSON: You're not finished yet.

MR. DONALD FISHER: Oh. I'm sorry.

THE CHAIRPERSON: Judith...?

MS. JUDITH DWARKIN: Thank you. I have a question about your prices and a question about your costs. And I guess first on the prices.

Could you comment on the extent to which you've increased the prices for your services to your customers over the last three (3) years?

MR. DONALD FISHER: I can and we've tried to -- because we were a new company, we tried to gain competitive advantage over the last few years by having what we considered reasonable costs. We got -- we're constantly in the squeeze where labour is going up and up and so we've held them.

But what we've also found is that companies that we've worked for -- some of the companies we've worked for have looked to us in terms of our evergreen contracts. These are basically prices which you commit for a year. If we send them out with new prices, they really want to revert to our prices from 2006. And so there has been a definite squeeze on us in the service industry and I think it's tightened up everywhere.

Again, it's very difficult for us at the bottom end, if you will, to go back to your employees and say, Guess what, you all get a cut in pay. It just doesn't work that way.

There are more and more people applying for jobs every day. I'm probably getting ten (10), fifteen (15) applications a day right now for work.

MS. JUDITH DWARKIN: In your cost structure, to what -- what has been the inflation in, say, your labour costs versus energy costs or material and equipment costs over this period?

MR. DONALD FISHER: Labour has been significant. And I can't give you an extended period but when I looked at the last quarter in '06, our labour cost - and I'm not talking about adding people - but our straight labour cost on a per person basis was up about 7 percent over that three (3) month period.

MS. JUDITH DWARKIN: So, 7 percent per quarter?

MR. DONALD FISHER: Mm-hm. A quarter.

Now, I wouldn't try to extrapolate that out over the year but -- and that was the only quarter that I ran, but labour is absolutely significant.

MS. JUDITH DWARKIN: And everything else in terms of your cost increases pale by comparison?

MR. DONALD FISHER: It does; nothing comes close to that. We have a lot of employees and a lot of contractors.

MS. JUDITH DWARKIN: And would it be fair to, sort of, generalize that to the three (3) years? Again, it's really -- the escalation has been in labour--

MR. DONALD FISHER: Yes. Absolutely.

MS. JUDITH DWARKIN: -- and everything else has been just kind of --

MR. DONALD FISHER: Yeah. Fuel costs are --

MS. JUDITH DWARKIN: -- percolating along?

MR. DONALD FISHER: I'm sorry. Yes, that's absolutely right. Fuel costs are up relatively significantly for us over the last few months, as they are for everyone.

MS. JUDITH DWARKIN: Thank you.

MR. DONALD FISHER: Thank you.

THE CHAIRPERSON: Having come to Medicine

Hat, I've learned a couple of things. So I heard from one of your peers, a drilling contractor, that told us that he literally twinned his fleet of rigs in about 2002, and then the drilling industry, exploration industry, I was told had banner years and '04, '05, '06 unbelievable records being set.

Then I heard from one of your clients, a major energy company, saying they've had the five (5) best quarters they've ever seen.

The price of natural gas, '04, '05, '06, '07, has averaged about six (6), six-fifty (650). At the end of '05 it went up to eleven (11). Third quarter of '06 it dropped down to three (3) but over -- over the constant of four (4) years it averaged six-fifty (650).

And now you're telling me that in this unprecedented time of a lot of activity and a lot of pricing that a change in the royalty would kill the golden goose -- my words, but just paraphrasing what I heard from you.

MR. DONALD FISHER: Well, I've seen a bit of a downturn perhaps -- well, not for royalty reasons obviously, it hasn't happened and I wanted to come to give you some of the effects that it has with respect to people on the ground.

I don't think that one can debate that if the -- if the royalty regime is not competitive, if the tax structure is not competitive, that you'll see capital move to other provinces and other countries, and it will have the same effect.

The reason may be different but the consequence would be the same for us. That's the concern.

THE CHAIRPERSON: Okay. Thanks for your contribution this morning, we really appreciate it.

MR. DONALD FISHER: Thank you.

THE CHAIRPERSON: Have a great day.

MR. DONALD FISHER: Yes. Thank you.

THE CHAIRPERSON: It looks like a beauty out there.

MR. DONALD FISHER: It does, yes.

THE CHAIRPERSON: And maybe it will dry up and get your rigs going. Thanks very much.

Ladies and gentlemen, that concludes our presentations for this morning. We are going to be back at two o'clock where we're going to hear from the Canadian Nuclear Society, Horizon Construction Management, an Albertan citizen, and -- pardon me, Wheatland County, and we're looking forward to that.

So we'll see you back here at two o'clock. Thanks for your participation this morning.

--- Upon recessing at 11:54 a.m.
--- Upon resuming at 1:55 p.m.

THE CHAIRPERSON: Good afternoon Ladies and Gentlemen. Welcome everyone and on behalf of the Royalty Review Panel, thank you for your interest in Alberta's royalty and tax regimes. Your input is a very important part of our work and we appreciate your time and effort.

I'd like to introduce the Panel to you. I have Ken McKenzie here; Sam Spanglet next to me. I'm Bill Hunter; this is Andre Plourde; Judith Dwarkin; and Evan Chrapko. On my far right is our handy-dandy time management keeper who will help the presenters keeping on time.

If you've brought a submission with you and would like to drop it off, you can drop it off at the reception desk outside or one of the secretariats that are in the room.

If you don't have a submission and you're thinking about putting one in, we'd gladly accept it but we're closing our public submission deadline on June 22nd, which is Friday.

From a safety perspective, if we have any emergencies please recognize there's an exit door at the back of the room and one to the extreme right of the panel; should anything happen familiarize yourself with the quickest exit.

While we're underway, if you could kindly shut off your cell phones and your Blackberrys so that we're not interrupted during the presentations.

These proceedings are being transcribed to allow the Panel to examine presenters' contribution and subsequent questions that we have with each one of our presenters; as well as, it allows us to post it on our Website so that we can share the exchange with all Albertans.

If there's any media present, I'd be happy on behalf of the Royalty Review Panel to speak to you at the appropriate break but I'd ask that you respect the space of the Panel and the presenters during the proceedings.

And, again, on behalf of all Albertans and the Panel, thank you for your time and your interest.

Our first opportunity to hear presentation this afternoon is from Mr. Pendergast of the Canadian Nuclear Society of Alberta. Welcome, sir.

PRESENTATION BY CANADIAN NUCLEAR SOCIETY OF ALBERTA:

MR. DUANE PENDERGAST: Thank you.

Thank you, Chairman Hunter and Panel, for letting us present our thoughts on nuclear energy and royalties.

My name is Duane Pendergast, I'm a member of the Canadian Nuclear Society and interim chair of the Alberta Branch. With me, are fellow members Laurence Hoye and Cosmos Voutsinos, our vice chair. Laurence is a mathematician. He was a professor and Associate Vice President at University of Lethbridge. Cosmos and I are both mechanical engineers with extensive experience in the nuclear industry. We're all retired.

We believe Albertans can benefit more from energy wealth if nuclear energy is used. We want to plant some ideas as to how that might be accomplished.

We suspect royalty policy has developed on a piece-meal basis over the years. Laurence Hoye has thought about that; he wonders if the policy could take into account all resources and their changing roles over time.

Laurence will now present his ideas for an integrating plan.

MR. LAURENCE HOYE: Thank you. May I first say that I am neither an economist or a lawyer or, in fact, a nuclear expert but I certainly support my colleagues in this presentation.

My concerns are about the applicability of the royalties and their subsequent disposition. Over the years there's been very little of these royalty funds put aside, except for the Heritage Trust Fund and several other research funds.

The royalty scheme should be applied to all sectors of Alberta resources, as indicated in slide 4 and in my brief. A substantial portion of these funds should be set into an Alberta sustainability fund. After inflation-proofing, the earnings could be used for many purposes or portions of the principal could be lent at competitive rates to federal or provincial governments. The fund would be a national resource but benefitting all Albertans.

We could not do all this instantaneously but over time, say in ten (10) years; after all, the original resource did not develop overnight, and time is certainly on our side.

I believe that Commissions could be established in significant areas to develop the fee structure. A Commission for a given resource area might consist of a senior retired Alberta Judge as chair, an academic and an engineer. The fee scheme would be examined every five (5) years.

Since there may be several of these

Commissions, there would have to be some over-arching agency to co-ordinate all these activities. The important principle is to maintain a revenue stream for Alberta to replace the depleting resource which, when gone, will generate no more financial or harvesting activity.

MR. COSMOS VOUTSINOS: Thank you for having me here. I will be talking strictly for the tar sands, there will be no conventional oil in my presentation.

To benefit all the stakeholders, can be maximized by achieving a synergy that would benefit (a) our society that owns the resources; (b) the government that manages them on behalf of our society; and (c) the oil companies that extract them and bring them to the market for a profit on behalf of the people.

The tar sands represent a very large -- large enough resource that there should be no incentive to look back. Looking ahead then, once is the need to establish a long term stability, low risk, which would foster investment in the solid robust industry.

Royalties may not be high enough right now and they could be increased for future leases. However, a government, rightly or wrongly, has signed past licensing agreements based on which the oil companies have made an investment and begun to spend their capital.

On this turn, how can we expect, as Albertans, to have a lifetime loyal partners while we're changing arbitrarily our agreements.

I propose to present to you another area to examine that will keep us -- keep our agreements and at the same time improve on the status quo. Adjustments made in this area can be phased in over periods of, say, five (5) to ten (10) years and it would be intended to focus the oil companies towards a mutual long-term benefit, which I think in the long term would be much more important, much more profitable.

The area that I'd like to touch is fair pricing, royalties and taxes for the commodities consumed easy too by the oil companies. Effective subsidies in this area have provided a disincentive to the oil companies to be efficient, to conserve our resources and to use alternative energies and to reduce emissions of greenhouse gases. It also has caused us a significant amount of lost revenues for the people of Alberta.

The policies of process for the following -- same question as follows. The price for the utility gas, that's the wellhead price, that always seems to be fluctuating all over the place. Price for coke. The price for the syngas. The burning of the bitumen.

Exporting of the bitumen. Do the oil companies include all these effective subsidies when they calculate their annual income for the provision of capital recovery?

Carbon tax, if needed, to be phased in ten (10) years. More measures to ensure that any changes we establish now in the production process will take place in an environmental acceptable way and not to the other way around.

In conclusion, I suggest that instead of focussing on increasing the royalties, Alberta and the oil companies will be better off if we announce today a phase-in a ten (10) year reduction of the subsidies that we provide for the consumables.

This not only will not violate existing contracts; not only provide -- will provide the gradually increased amount of royalties; not only will increase the oil production and royalties paid; not only will conserve the resources to the maximum possible; but most importantly, will cause the oil companies to forward -- to focus those and more efficient exploitation of our resources by using alternative energies.

It always lays a foundation for a long-term balanced relationship and sustained production of energy without conflicts with our environment.

You cannot blame the oil companies for

taking what we are giving to them, but if you change the tune, they will change the dance. Thank you.

Duane now will conclude with a few remarks on the future of uranium as an Alberta resource.

MR. DUANE PENDERGAST: Thanks, Cosmos. This energy flow diagram -- the first time we have a worthwhile slide, from NRCan that provides some interesting insights.

Energy associated with Canada's export of uranium is already about equal to that from fossil fuels. Current reactors use uranium inefficiently; advanced reactor systems could extract about one hundred (100) times as much. Now, there is a basis for an energy super power.

Canada's uranium producers pay about 50 million in royalties per year; Alberta's fossil fuel producers pay about $10 billion. There seems to be a disconnect based on energy potential.

Alberta has uranium. A royalty is already set which seems to ignore its energy potential and I wonder if the royalty structure could somehow take that into account.

To sum up. We are here today. We anticipate seeing something like this perhaps a century ahead. How will we get there while ensuring Albertans realize maximize benefits from the resources?

We are looking forward to your questions and insights. Thank you.

THE CHAIRPERSON: Thank you, Gentlemen. If you'll allow us a few questions.

QUESTIONS BY THE BOARD:

THE CHAIRPERSON: First, you remind me of two retirees we met in Grande Prairie, in our very first public forum, so this is a great reunion for me.

MR. COSMOS VOUTSINOS: Beginning of the end.

THE CHAIRPERSON: Judith...?

MR. DUANE PENDERGAST: First and last day.

MS. JUDITH DWARKIN: Thank you. When you started telling the story about the academic, the engineer and the senior, I thought you were going to lead into a joke, so, maybe that's coming.

MR. LAURENCE HOYE: Stating the facts.

MS. JUDITH DWARKIN: Yes. And you are one in a long line of very notable people to deny being an economist, I would point out.

I have a couple of questions. Are you recommending that the royalties be increased specifically on energy commodities that are consumed, as you put it, in energy production? Did I understand you correctly?

MR. COSMOS VOUTSINOS: I -- I -- I did not suggest the royalties be increased, I suggest missed accounting to be accounted properly, to have the commodities represent the fair value.

MS. JUDITH DWARKIN: Okay, that leads me to my second question. Are you suggesting, then, that the market prices of these commodities, say, the market price of natural gas today doesn't reflect its energy content or its -- there's some other basis on which you're saying it should be priced over and above energy content?

MR. COSMOS VOUTSINOS: No, no. The market price is set by the cost and the supply and demand. I don't question that.

What I'm suggesting is the price that the oil companies are paying for the consumption of gas, it's totally different than market price. It is what they call utility gas and it's based on the wellhead price which is much lower.

I tried to trace down the price but it seems to be a well-kept secret, that price, although, that is the basis for which the oil companies pay royalties.

MS. JUDITH DWARKIN: Okay. Thank you.

THE CHAIRPERSON: Ken...?

MR. KEN MCKENZIE: Yeah, just further down this idea -- I mean, you talked about utility gas and I understand your point there. Part of the theme, I think, in your presentation, Cosmos, was the -- was the idea of underpriced or unpriced inputs. And a good example of perhaps an unpriced input would be water which at this point one might argue would be underpriced.

And you talked about a carbon tax as well. And -- well, I mean -- so how broad is your pricing -- your underpricing framework here? I mean, we're a --- one of the issues in the carbon tax is that we're not pricing the environment properly or the pollution or the emissions properly.

Are you -- that's the sort of theme that your looking at?

MR. COSMOS VOUTSINOS: That's correct. If we take --- if we extrapolate that idea a little bit, for instance, to the practice of applying the TIE process which is toe-to-heel air injection. It burns the bitumen in situ.

MR. KEN MCKENZIE: Yep.

MR. COSMOS VOUTSINOS: Now, that burns a part of the commodity which they are supposed to extract and export.

MR. KEN MCKENZIE: Yep.

MR. COSMOS VOUTSINOS: And to pay royalties for it. So when someone burns it, it is not free. They take a value. If they pay for that value then they can consume it.

The problem is, that if they don't pay and they get the benefit of, say, something like 50 percent of its value, it should be considered as income to the companies and it should be considered when they calculate their annual income for the provision of the capital recovery.

But it is not taking place that. So it is a hidden cost that sometimes represents a very high percent and sometimes more significant than the royalties themselves.

MR. KEN MCKENZIE: We talked to Petro Bank about -- about the technology, and actually did raise this issue with them so. Thank you very much.

MR. COSMOS VOUTSINOS: Thank you.

THE CHAIRPERSON: Evan...?

MR. EVAN CHRAPKO: Thank you for your presentations. Do you put nuclear in the same category in terms of its position on the technology life cycle as oil sands, or would you -- and the technology that goes into SAGD and so on? Or would you say that the hydro carbon technologies are newer?

MR. COSMOS VOUTSINOS: Both technologies are evolving.   Only tar sands did develop continuously new technologies and --- but the key issue here is do not subsidize any particular energy. Let them find their own place in the market. Then the oil companies they will walk with their feet, with the dollars in this case to which energy they will go.

But as long as we subsidize the consumables, they have no incentive to go any other direction but to consume what is subsidized to them.

MR. EVAN CHRAPKO: I guess I was getting at the construction of some of these plants. Nuclear power plants are notoriously big and intensive projects.

Are you making a case for a generic regime along the lines of what we do for oil sands?

MR. COSMOS VOUTSINOS: Usually the big cost is the infrastructure of a nuclear plant to build. But once you have got a repeated, a second or third plant, they become much lower in cost and also nuclear power can find its place quite competitively regardless of the popular conception of that. It can be fairly competitive because of the high efficiency which produce energy.

There have been lots of studies that that particular energy fits like a glove up in the tar sands and I believe it. But there would be another energy, for instance, coal if they had some way to sequester the carbon.

But until the technology exists, these two technologies will compete for the lion's share of the air -- of the power, whether we like it or not.

MR. DUANE PENDERGAST: Maybe I could add just a little bit. I'm not quite sure what you meant by evolution of the technology but, certainly, nuclear technology has room for substantial evolution still as well.

MR. EVAN CHRAPKO: Okay. Thank you.

THE CHAIRPERSON: Sam...?

MR. SAM SPANGLET: Good afternoon, guys. I'm also retired but I don't have hair, and you guys do. Do you grow it after a while?

MR. LAWRENCE HOYE: Radiation helps hair.

MR. SAM SPANGLET: The whole nuclear proposition was -- which by the way I'm personally a big fan of it for Alberta. How do you -- how do you apply -- give you a couple of ideas.

How do you apply your royalty on mechanism regime to encourage it or to support it or -- because you talked about it a little bit. How do you do that -- give me some -- talk to me more a little bit about it.

MR. DUANE PENDERGAST: Well, I guess one of the things that we believe is that by using a nuclear energy we could actually produce more oil, we could upgrade oil, we could increase its value and we could draw more royalties out of the oil.

MR. COSMOS VOUTSINOS: Also, by using that particular form of energy it will help in many other ways, not only Alberta, but also Canada. It will allow the --- as Duane mentioned, it's an evolving technology, nuclear. Like if when -- if we had ground the rights for the first airplane, we wouldn't have had the jets we have now. And nuclear is an evolving technology that corrects at the big quantum step.

So, it will help both ways and ultimately it will help -- now it's a resource that will maintain for 3000 years sort of. So it is absurd to look for other ways to fill it.

MR. SAM MCKENZIE: How do we advance it? The concept of it.

MR. COSMOS VOUTSINOS: The problem is more people, not technology. The technology exists there to do it. The oil companies they have to feel comfortable with this technology, first of all.

Actually, there is a book that is in print right now and it's on a website and the thing that it is mentioned somewhere where you can have access to it to read the whole plan how we vision the whole thing to proceed.

It is more a people problem rather than a technology problem. The oil companies are profit minded conservative organizations and they will not jump into something that they are not familiar with.

So someone like --- there is a company in Alberta, Energy Alberta has started which is find -- or the government or someone independent could start it, make it work and then once they see the light, they will go for it. I mean, incentive would be there to go for it because finance -- the money will make them -- the savings would make them go that direction.

MR. SAM SPANGLET: So you don't propose certain types of incentives toward the royalty system, you're proposing more education --

MR. COSMOS VOUTSINOS: Education --

MR. SAM SPANGLET: -- promotion, explaining --

MR. COSMOS VOUTSINOS: -- education on the alternative energies. On that, I mean, all alternative energies because maybe someone could -- the thing and -- and also eliminate the subsidies.

MR. DUANE PENDERGAST: Maybe I could add just a bit there. I did mention the idea that the royalties that we collect for uranium are very very small in comparison with the amount of energy that's actually going out of the country right now. And I suppose in the long term future, we could end up paying royalties to France or the United States to get our used fuel back so we could reuse it.

MR. SAM SPANGLET: Very good point. Thanks.

THE CHAIRPERSON: Andre...?

MR. ANDRE PLOURDE: Thank you. Thanks for your presentation, and thanks for the material that you circulated ahead of time.

First of all, you mention in your presentation the Alberta sustainability fund. Any reason why we couldn't -- you couldn't have thought of just using the Heritage Savings Trust fund to do the same thing?

MR. LAURENCE HOYE: Well, the Heritage Trust Fund has a lot of baggage with it, as does the very term "royalty." I'm sure you're aware that a lot of this regime came from the Texas Railroad Commission because, in fact, they used to transport just about all of the oil around Texas using the railroads and then the state legislature down there said, well, go ahead and look after everything.

And then when we had oil here, we moved in the same direction and, essentially, took a lot of our cues from the Texas Railroad Commission but...

MR. ANDRE PLOURDE: Okay. All right. Another question is, you suggested to us this idea of reviewing rates or at least their structure of the royalty regime every five (5) years with these commissions and we've had a lot of questi -- a lot of submissions from people concerned about the uncertainty of any kind of change created by any kind of change in the system.

Do you think that moving to something like that would create more uncertainty or is the fact announcing it's gonna happen every five (5) years enough to dispel that?

MR. LAURENCE HOYE: Well, I'm a little concerned that if you don't review these things, then people get very comfortable in the situation that they're in.

MR. ANDRE PLOURDE: Right.

MR. LAURENCE HOYE: And I think that there is a very good reason to keep some people uncomfortable a good part of the time. Not uncomfortable in the sense that they are going to loose the company or anything like that, I certainly don't recommend that.

But they should be aware and they should be always updating their plans.

MR. ANDRE PLOURDE: Okay, great. Thank you.

MR. LAURENCE HOYE: Yep.

MR. DUANE PENDERGAST: I wonder if I could add just a little bit to that. We've -- we've learned how difficult it is to follow the royalties in the past month or so since we volunteered for this project, and someone this morning, I think, mentioned how difficult it is for the public to follow us.

So if there was kind of commission, as Laurence suggests, that tried to keep the public informed as they went along and had the time to spend on the issue to really understand it, I think it might help a lot for communicating with the public and keeping them advised.

THE CHAIRPERSON: The New Brunswick has had a reactor for twenty-five (25) years, and I've recently heard that they're going to renew their assets and continue for another twenty-five (25) years. So they seem to be sold on the ability to use nuclear power.

I understand the concept of using it in --

in our case to support the oil sands development. Saskatchewan's uranium royalties are from the uranium itself, it's not a generating opportunity.

MR. DUANE PENDERGAST: That's correct.

MR. ANDRE PLOURDE: Is the Alberta uranium easily accessible, as identified in your map?

MR. DUANE PENDERGAST: I don't really know how far it's developed. That North -- where was that one?

THE CHAIRPERSON: My friend here will help you if you want.

MR. DUANE PENDERGAST: Go back there. Notice that there's a little chunk up in the Northeast corner there adjacent to the reserves in Saskatchewan, I think is the same structure there. And I did see on the Internet that they have found some fairly high-grade ores there. I don't -- have no idea how expensive they are.

This lower L-shaped piece down here is the topic of some consideration, I guess. It's rather low-grade ore, and they're talking about mining it using an asset leaching process and there have been a few articles in our local paper about it. I -- I don't know the details.

THE CHAIRPERSON: Okay. Thank you, gentlemen, very much for your presentation this afternoon and coming in and speaking to us. I really appreciate it.

MR. DUANE PENDERGAST: Thank you.

THE CHAIRPERSON: And like Sam, I'm also retired, so it's nice to have these retirement clubs that are so knowledgeable.

Next the panel has the opportunity to hear from Ms. Zeidler, from Horizon Construction Management, Limited. Welcome, Ma'am.

PRESENTATION BY HORIZON CONSTRUCTION MANAGEMENT LIMITED:

MS. LYNN ZEIDLER: I'm afraid I'm going to have to peer over these glasses at you. I'm not retired, but age has gotten me, in any event.

Good afternoon. I am Lynn Zeidler, Vice President of Horizon Construction Management Limited. It is a company that was formed to provide project and construction management services, as well as the supply of labour and equipment for construction projects in Western Canada.

HCML, as a company, undertook a million hours of construction work in 2006, and as of the end of May 2007 has completed an additional 500,000 hours. HCML has been able to grow as a result of the strong construction labour demand in Alberta, and predominantly a result of our confidence in sustainable construction demand for oil sands projects.

Specifically, I manage the contract with Canadian Natural, which provides for services of the principal contractor for the development of the Horizon Oil Sands project. The services HCML provides under this contract include project management, construction management, labour relations and aviation support.

We conducted over 300,000 hours in 2006, and we have a forecast effort of 350,000 hours in 2007.

If you're wondering why I'm making the presentation in Medicine Hat, unfortunately I had conflicts with your other dates and it prevented me from attending in communities closer to the oil sands. But despite that, Medicine Hat, albeit a long way from the Wood Buffalo region, has felt the economic impact of the oil sands development.

Our company, in contract, who's executing these projects, source construction labour and project management expertise from across Alberta and Canada. The Fly-In, Fly-Out program implemented by Canadian Natural has allowed HCML, and other contractors on the project, source these critical skills from beyond traditional supply points.

Other project owners are now constructing air strips to facilitate access to construction operations and maintenance workers to the Wood Buffalo region from across Alberta and Canada.

Fly-in and fly-out access is safe, quick, and allows individuals an opportunity to retain their base in their home community.

This submission to the Royalty Review Panel is from a very unique perspective; that of a company participating in the construction sector but also leading the construction of a greenfield integrated oil sands mining and upgrading project.

The Horizon oil sands project is the largest construction project underway in North America. First proposed in 2000, Horizon received final regulatory approval in 2004 and has been under construction since that time.

Phase I is now over 60 percent complete and the plan for production startup in the third quarter of 2008. Phase's II and III of the project are also approved by the regulators and plan to be complete construction in 2012.

That will provide us 200 and -- sorry, 232 thousand barrels of synthetic crude oil a day. HCML has been contracted to the project since 2005 and hopes to continue to support the project through phases II and

III.

In November 2005, Canadian Natural announced planned expansions to 265,000 barrels, phases IV and V of the project. We understand that approval of this expansion which would more than double the production will likely hinge on the continuation of a consistent and stable fiscal regime.

Confidence of the developers and their investments has and will translate directly into the confidence of the fabrication and construction companies to develop the confidences and capacities to successfully complete for -- sorry, compete for and deliver these projects.

It's widely known that it's an enormously challenging task to plan, design and build integrated oil sands projects and to stay on plan and on budget. Cost control is critical in preserving the economic case for pursuing such long term risky projects. And it's an essential feature of all aspects of the project's execution plan.

Many have said that the only way to manage with costs and labour supply is to delay or to pace the oil sands developments and we do not believe that is true.

Maintaining investor confidence is the

key. When the Horizon project execution program was developed, several key challenges were identified. The Horizon project and the Alberta government worked together to manage these challenges.

Joint efforts to improve the transportation infrastructure to facilitate effective transportation of major modules and oversize loads to the site were needed and completed, they ensured that transportation of equipment and modules were executed without any impact on schedule.

Second, obtaining a labour agreement that would provide site stability and access to all available trades from across Canada regardless of labour affiliation was key to the project's success.

As a managed open site, we were assured of no strikes and no lockouts for the entire period of the construction of phases I, II, and III. Skilled workers have been able to work together regardless of labour affiliation and today the distribution of union and non-union construction labour is 40 percent building trades, 45 percent Christian Labour Association of Canada, 4 percent communications, energy and paperworkers and 11 percent non-union.

The need for temporary foreign workers has been minimized to less than 5 percent of the overall 6000 plus workers on site today.

Third, onsite camp and housing strategies were required to facilitate the accommodation needs of owner and contractor employees during and following project development. On site and regional camps were built to --- and utilized to ensure quality transportation for up to 7500. Release of land for housing developments has assisted in ensuring that housing will be developed to support those that need to be resident in the community for the long term.

This increases contractor confidence that they can attract and retain the required work force.

Finally, completion of a royalty agreement to establish stable fiscal terms to the project for phases I, II and III was completed as a necessary condition for project approval.

The success of the twelve (12) plus year process to build the Horizon project depends on continued control of costs and ensuring a trained and qualified work force is available to execute the program.

We recognize that cost overruns have been a major concern with both the industry and the Alberta government. Canadian Natural's approach to contracting and engineering was designed to remove a considerable part of the cost risk for both the owners and the contractors. The goals to achieve a high level of project definition, to enable and -- and secure EPC lump sum and unit price bids and to break phase 1 into twenty-one (21) distinct parcels ranging in value from ten (10) to 700 million provided a high degree of cost certainty.

The impl -- implementation of the specifics execution strategy has resulted in new and innovative ways to increase access to contractors and their workforces. Building capacity takes time and is only successful where there is confidence by all parties at all levels in the economic sustainability to business opportunities.

Although I have provided a very superficial overview of the cost control and workforce recruitment initiatives on the Horizon Project, I have flagged the breadth of issues that need to be addressed cooperatively. All of this effort is driven by confidence that the economic cases for oil sands projects are sustainable over the life of those projects.

We understand that a stable and predicta -- predictable fiscal regime is the most important element in preserving this confidence for owners; without it, a project such as Horizon would be too risky for most companies.

There are those that assert that oil sands fiscal regimes make companies indifferent to cost overruns. I can assure you that this is not the case. While ballooning costs might delay the onset of post-payout royalty, there is no advantage in contractors escalating their costs, so that owners can defer royalty payments. Although both contractors and owners bear risk in -- on cost overruns, the investors bear the lion's share of the costs and seek to avoid them with considerable effort and increasing success.

The industry's evolving and as more projects are executed, the learnings are transferred and incorporated into successive projects. Slowing projects down will only mean that the opportunities for continuous improvement and utilization of new capacity will wane or be lost.

As principal contractor for this mega-project, HCML has a unique perspective on Alberta's investment climate and the effect of the current fiscal regime. The current regime supports oil sands investment and has created an array of new capabilities in the Alberta basin Canadian companies who build major projects.

We are rapidly creating new interests in increased capacity in the oil sands projects that is important for ensuring the development of all mega-projects. Improvements in the execution plans of major projects are occurring that will enhance performance.

These new skills and confidencies are highly valued commodities in a global economy where numerous major projects are under consideration or under development at any given time.

These capabilities and skills have become an important part of the wealth creation in Alberta and Canada. They are predictable and transferable to major projects regardless of the location and are focussed on building and expanding within our province.

If the fiscal regime is not suitable for continued major investment in Alberta oil sands, the province not only risks losing further investment in the sector, but also the leverage to diversify the economy represented by the contractor capabilities that currently exist and their considerable growth potential.

THE CHAIRPERSON: Do you have a closing paragraph?

MS. LYNN ZEIDLER: I do, sure. Today, we risk a return to much lower economic levels, especially in the oil sands sector. Recent propo -- sorry, recent postponements and cancella -- cancellations of major oil sands related projects have been in the media.

These have been attributed to uncertainty and concerns about future fiscal and environmental policies that will negatively impact project economics.

On summary, I would simply say that Alberta's generic oil sands regime has been a great success. Even with commodity price increases, investment in -- in major oil sands projects are economically risky. These investments continue to require a stable and predictable regime as was intended by the National Oil Sands Task Force that created it.

Also, please carefully consider the Alberta industries that have emerged and grown to serve the needs of project design, development and operation. These industries pay no royalties, but contribute greatly to the government revenues and, perhaps more importantly, are critical to the future diversification of Alberta's economy. I appreciate the opportunity to make this submission.

QUESTIONS BY THE BOARD:

THE CHAIRPERSON: Thank you, Ma'am. If you will allow us a few questions? Ken...?

MR. KEN MCKENZIE: Yeah, thank you very much for your presentation. On page 6 of your written submission, point 4 you talk about the importance of completion of a royalty agreement with Alberta for phases

I to III of the Horizon project?

MS. LYNN ZEIDLER: That's correct.

MR. KEN MCKENZIE: Could you talk to me a little bit about the nature of that agreement, the terms, what does it encompass?

MS. LYNN ZEIDLER: I can't.

MR. KEN MCKENZIE: Okay.

MS. LYNN ZEIDLER: As a contractor to the owner --

MR. KEN MCKENZIE: Okay.

MS. LYNN ZEIDLER: My role is in the construction management.

MR. KEN MCKENZIE: Okay.

MS. LYNN ZEIDLER: And not in the negotiations of the royalty environment.

MR. KEN MCKENZIE: Okay but you're under the impression or you're aware that such an agreement does exist?

MS. LYNN ZEIDLER: I am aware that it does exist. We are aware that it was a condition of the approvals which led to the sanctioning of the project.

MR. KEN MCKENZIE: Okay.

MS. LYNN ZEIDLER: And we are aware that the company's position, Canadian National's position, has been that they are looking to a stable environment in order to approve phases IV and V.

MR. KEN MCKENZIE: Okay. So that actually segues into my second question, which is, you talked about IV and V being in a sense contingent on stability of the fiscal thing.

Do you know, at this point, whether that expansion IV and V fall within the ring fence -- the royalty ring fence of the original project or would it be considered for royalty purposes separate?

MS. LYNN ZEIDLER: It was not included in the original royalty agreement, to my understanding.

MR. KEN MCKENZIE: Okay, right. So at this point your understanding is that it would be treated separately?

MS. LYNN ZEIDLER: But I would ---

MR. KEN MCKENZIE: Okay.

MS. LYNN ZEIDLER: I would --- I could follow up and have Canadian Natural respond on that if you wish.

MR. KEN MCKENZIE: That would be fine, yes, thank you very much. Good. Thank you.

THE CHAIRPERSON: Sam...?

MR. SAM SPANGLET: You've stated at a couple of points that there have been a lot of project delays which I know I've heard, as a result of this review -- of this royalty review. Is that a fact?

MS. LYNN ZEIDLER: It's -- I think if I rely on the media, there are several statements that we can find in the media. As a member of the construction owners association, there's also considerable dialogue amongst the owners in terms of concerns on projects, ways to improve but also an understanding of the risks imposed by changing conditions.

MR. SAM SPANGLET: My understanding of the word "delayed" is a result of high construction costs, sloppy start-ups and more so than a potential increase in royalties that nobodies announced yet.

MS. LYNN ZEIDLER: And ---

MR. SAM SPANGLET: I stopped investing in oils and stocks because of lack of good leadership and management, and not because of the royalties myself so...

MS. LYNN ZEIDLER: And that was really the message that I wanted to deliver to this panel. Was that there are improvements being made.

MR. SAM SPANGLET: Yep.

MS. LYNN ZEIDLER: We recognize the things that are within our control to change and adjust and to get better at. As projects occur on a more regular basis, you don't have the loss in skillset. You don't have the loss in knowledge base.

It's unusual for a person to have in one career, as I do, an ability to participate on three (3) mega projects in Canada.

That allows people, and people like me, to transfer those skills from one project to another and to improve on that performance.

If you assume that, we will work to improve on those things that we can control, than those things out of our control are things like the royalty regime and that's why we're here today is to ask that you provide due care and consideration when changing an environment that stimulates --- has stimulated and is perceived to stimulate additional growth in the market.

MR. SAM SPANGLET: Thanks.

THE CHAIRPERSON: Who owns HCML?

MS. LYNN ZEIDLER: Canadian Natural.

THE CHAIRPERSON: Okay.

MS. LYNN ZEIDLER: It is a subsidiary company. It's not a wholly-owned company though. It has other partners.

THE CHAIRPERSON: Okay. Thank you. Andre...?

MR. ANDRE PLOURDE: Thank you. You mentioned at some point in time in both the presentation and in the material you submitted the notion of diversification of the economy and how the royalty system had an impact on diversification of the Alberta economy.

Could you help me through that a little bit please?

MS. LYNN ZEIDLER: The linkage I think I was attempting to make there was, as we develop these projects and go into the construction, the spinoff in terms of additional services, manufacturing, fabrication facilities, all of the support structure that comes along with the construction of major projects, as you become more frequent, they become more stable.

So those support industries in and of themselves become a marketable commodity not only for the projects in the Wood Buffalo region, but around the world.

MR. ANDRE PLOURDE: Great, thank you.

THE CHAIRPERSON: Judith...?

MS. JUDITH DWARKIN: Thanks. Good afternoon. I -- I'd like to touch on a couple of areas that you spoke to and one (1) relates to a -- a statement that you made to the effect that the -- a stable fiscal regime is the most important element in preserving investors' confidence in these mega-projects.

What other issues are there? Like, surely price expectations is a biggee if not even more important?

MS. LYNN ZEIDLER: There -- there are many issues that one can look at and say they're a concern. Price is a moderating influence and will be dialled into the economics of every project that proceeds.

The stability of the royalty regime, particularly on an oil sands project, when you appreciate the billions of dollars that are spent --

MS. JUDITH DWARKIN: Mm-hm.

MS. LYNN ZEIDLER: -- and the debtload that are carried by the developers of those projects, the -- the need to be able to look the shareholder in the eye and say, yes, we're going to carry this debtload, but we're going to have an ability to recover that investment and then stabilize the company books thereafter is a pretty important one.

MS. JUDITH DWARKIN: That, again, will be based on a particular price scenario and expectations on costs.

MS. LYNN ZEIDLER: And -- and the ability to recover from that -- that spend will be driven by the price. If it's high priced, it's much quicker and that gets us in the 25 percent royalties much sooner.

MS. JUDITH DWARKIN: Okay. My second

question relates to some commentary you have on page 10 of your presentation to us where you seem to be suggesting, and maybe I'm reading too much into it, that the alternative to the current royalty regime in the oil sands is a recession in Alberta.

Do you really mean to make it so black and white that there's -- there's a -- a cont -- a continuum of -- of possible scenarios that's different from the status quo?

MS. LYNN ZEIDLER: I -- I can't debate. It depends on what changes are made as to whether it would cause industry to slow down and stall or whether it would simply be a moderating influence on development.

MS. JUDITH DWARKIN: Okay, thank you.

THE CHAIRPERSON: Evan...?

MR. EVAN CHRAPKO: Would you, just continuing that question for a second longer, agree that not all industry players move in unison, there are -- there are marginal players and then there are those like your major shareholder with a deeper balance sheet or what have you?

MS. LYNN ZEIDLER: The industry will always set its own pace and it'll set its own pace based on the risk. The risk of price, the risk of labour supply, the -- the risk of confident contractors to do the work, all of those things, including their balance sheet, will -- will affect the -- the speed and the size at which they approach project development.

So we -- but we have an environment right now that is stimulating companies to look at that and they're not all occurring at the same time and they are staging themselves somewhat, in any event, but they're not discouraged to consider investing.

And from a contractor's perspective, we -- and I work with about six hundred (600) contractors on our site to encourage them to develop the skills and competencies to provide the resources we need to get these projects done. Those contractors are excited about what they understand, what they perceive to be the fiscal regime in Alberta.

And that was really my comment around what was happening on the east coast where there's certainly energy projects of a variety of natures out there, but you don't see that -- that enthusiasm that you see in Alberta.

MR. EVAN CHRAPKO: Your presentation talks about a big quagmire of social ills, budgetary deficits and recession fears, but, that would be in the event of a -- a world energy price collapse or the inevitable cyclicality in that; that could be just as easy and then that leads me to my -- back around to the -- the question I was try -- trying to get an answer for.

The marginal players, is it the -- the role of the fiscal regime to prop those up? Is -- by definition, someone's always on the margin.

MS. LYNN ZEIDLER: And I think those companies will sort themselves out --

MR. EVAN CHRAPKO: Yeah.

MS. LYNN ZEIDLER: -- as to whether they're on the left-hand side --

MR. EVAN CHRAPKO: Yeah.

MS. LYNN ZEIDLER: -- or the right-hand side of the margin. I don't think it's fair to say that we know where the line is until we understand what their -- their cost structure is and what their capability is to execute and manage a project.

MR. EVAN CHRAPKO: The latest entrant is probably on the line?

MS. LYNN ZEIDLER: I'd have to ask you who the latest entrant is.

MR. EVAN CHRAPKO: Do you know -- you know that some have come -- just like you've mentioned some that have left, I'm sure you're also aware, if you read the media reports, that some have arrived since this panel was announced and since a lot of other changes have also hit the Canadian landscape?

MS. LYNN ZEIDLER: Not in a position to comment on them.

THE CHAIRPERSON: Thank you very much for your presentation this afternoon, we appreciate it.

MS. LYNN ZEIDLER: Thank you.

THE CHAIRPERSON: Have a great day.

Ladies and gentlemen, we are going to take a five (5) minute break and then we are going to hear from Mr. Koester of Wheatland County.

--- Upon recessing at 2:47 p.m.
--- Upon resuming at 2:55 p.m.

THE CHAIRPERSON: Thank you, ladies and gentlemen. We are back for our final presentation of the day. We are going to hear from Councillor Koester of the Wheatland County. Welcome, sir.

PRESENTATION BY WHEATLAND COUNTY:

MR. GLENN KOESTER: Thank you. Thanks for -- for having us here today, we're -- and Ken Sauve's a Councillor at Wheatland County and it's pronounced Koester --

THE CHAIRPERSON: I am sorry.

MR. GLENN KOESTER: -- like and -- that's not problem. I've heard worse. And besides being Councillors, we're not retired, but I can safely say, we're tired farmers.

I'd like to take this opportunity to thank the Alberta Royalty Review Panel, appointed by Minister of Finance Honourable Dr. Lyle O'Berg to hear us today. And we've -- I've provided you with a copy of our -- somewhat of a copy of our presentation, but I would like to speak to a few other points 'cause it's very evident that you look out -- over the material and -- and I'm quite grateful for that.

In 2003, Wheatland County had a total of twenty nine hundred (2,900) -- or thirty-nine hundred and twenty nine (3,929) wells in the county, which an average assessment of fifty thousand (50,000) but in 2006, we had a total of six thousand and sixty-two (6,062) wells. And that -- but that total assessment -- not a total, average assessment, the re -- they were reassessed of eighty thousand dollars ($80,000), which is entirely another topic, the assessment part.

But anyway, this growth represents a growth of about seven hundred and eleven (711) wells per year. And at this rate, next summer we'll have in excess of seventy one hundred and four (7,104) wells and that is how many quarter sections Wheatland County is. So next year we should have a well, on average, every half (1/2) mile across the whole county.

And we're predicting with our new census in, we have a growth rate of 3 percent, so if everything stays equal, I know that's hard to do, but in 2010 we should have more wells than people in Wheatland County. And we also have 3120 kilometres of open road that we maintain.

So you can see we're a spread out county. We have roads through the whole county, granted mostly are gravel roads, but the activity is pretty well spread through the whole county. They'll come in and -- and target one (1) area and then another, but the drilling -- but after the drilling there's the maintenance and -- and all these other issues.

And I thought you would be -- that kind of gives you a base work of what we're talking about when we talk about the impact on our local ratepayers and citizens that live in the community.

And our roads is -- is our number 1 complaint, as Councillors, that we hear about. And oh, I believe about two (2) or three (3) years ago I was involved in a task force on the condition of our roads and it was determined that two-thirds of our roads were built prior to 1970. And the standards of road building then were made to build -- a heavy truck was a tandem truck which was weighted 17 tons for the -- for the tandem spread.

Today we have tandem trucks, but they're pulling tridum trailers and we have tridum-drive trucks and we have tridum-drive trucks with tandem steering axles in the front. And the weights have increased from 17 ton to 21 ton; the current licence a 24 ton and we hear talk on the radio of 27 ton coming up. Our infrastructure, our roads cannot support this kind of weight.

Wheatland County, we're trying to cope with -- with all this activity and all this. We're trying to develop a grid; a network of high-grade roads so we can keep the trucks on to them and -- and keep it off -- off of the deteriorating road surfaces and try and prolong it.

But with -- we're hampered by when a -- when we have a play on a certain area, the repairs that have to be done and then that detracts from our road-building capabilities and, of course, money.

And another thing we're trying to do is add pavement, hard surfacing, because our main routes, I think you're all probably aware over -- over years is cheaper than trying to maintain a gravel road.

To go on, what I hear a lot from -- from our ratepayers, and especially the ones that live in the hamlets and villages, is the quality of life. Everyone's affected by -- by this activity. Everyone is -- their infrastructure, they can watch it -- the roads degrade, and their quiet enjoyment of their home life is not there anymore on account of the traffic, the compressors; just the general activity. But everyone has to pay the taxes, you know, to build these roads.

And another point, at the County we like to treat everyone with fairness and equality. When a developer comes in he's asked to pay for the infrastructure whether -- in most cases, in the County, it's roads. If they want to build a road down by the powerline and it happens to be on a low-grade road, they have to upgrade the road at their cost.

And this carries right down to our residential people that want to develop an acreage on an undeveloped road allowance. They have to build that road to County standards. And these standards are in the back; our appendix in the handout there.

But conversely, the energy sector, their permits are given out by the Provincial Government. And the fees and royalties are paid to the Provincial

Government. Okay.

The funding. The funding we get from the Government is not predictable, and when we have surpluses, we get more but, sure, there's threat of the surplus depleting with the valued dollar that would probably mean less.

If we, the municipalities, got a share of the revenue upfront, our funding could be more predictable and we could use it to make decent long-term planning when we're developing our road networks.

As a businessman, I would never let my infrastructure fall into disrepair. Eventually, there would be no infrastructure and, hence, no production. If all Albertans share in the benefits that royalties and other fees from the oil and gas sector bring, then I think that it's imperative that all the Albertans share in the building and the upkeep of the infrastructure that is needed to continue to develop this very important income stream for the -- for the Province.

So our -- our basic contention is, at Wheatland County, we would like a share of the royalties. We're not asking for an increase of the royalties or -- just a fair, predictable share and, in that way, the counties or municipalities that are having a high degree of impact would maybe get more -- should reflect -- I know everything isn't fair and equal, but it should be relative to the -- to their situation they're finding themselves in.

We've also, in the handout there, got a letter from EnCana. They are the major player in Wheatland County. They're mostly gas and lately it's coal bed methane they're after. We don't know for sure, but a quick poll of the councillors in the area, we figure maybe they do about 70 percent of the business activity in Wheatland County. We have numerous other players; we have Husky, Quicksilver, CNR. I just can't think of them all, but they're smaller ones in the thing.

EnCana provided us a letter in support of -- of our resolution. And they also told us that they paid about $30 million last year in royalties from Wheatland County. And these are -- you have to appreciate -- I guess it wasn't just royalties, it was mineral tax, too. EnCana owns the field, so they don't pay a lot of royalties, the way I understand it. They collect royalties from the other players, so, there's substantial money leaving our county in the form of taxes. And that's what we really want to have a share in.

And, yeah, that's -- pretty good for questions I hope, like, I can answer. Ken's here to answer questions.

QUESTIONS BY THE BOARD:

THE CHAIRPERSON: Thank you, sir. We certainly would like to ask some questions.

Ironically, you're the last presentation of our whirlwind provincial tour and my grandmother's name is Mildred Wheatland, so it's only fair that Wheatland County be the last one.

Evan...?

MR. EVAN CHRAPKO: What share are you after? Do you have a number? Did you come here prepared to give us any guidance in this respect?

MR. GLENN KOESTER: Well, I'm a -- I'll talk first. Ken's -- Ken's the bargainer here. And I, you know, I kind of thought about it and, you know, you always think, farmer, he always asks high and settle for low.

But I thought 5 percent would -- would be a fair number; that would give us, maybe, $2 million. That would pave four (4) miles of road. It's not much when you have, you know, two thousand (2,000) plus miles of road, but we have identified some major corridors and, you know, in ten (10) years I think we could start to get a handle on -- on developing.

We have a few provincial highways, and I guess I should have alluded to earlier, some of this money that the Government give us for infrastructure, well that -- we had to partner with them to get some provincial secondaries paved. They're important to us and that's why we did that, but it neglects our local road network, too.

MR. EVAN CHRAPKO: So after ten (10) years you'd pave forty (40) miles out of two thousand (2,000)?

MR. GLENN KOESTER: Right, and then we wouldn't want to pave the full two thousand (2,000), we just want to get our main crossroads done. So it would be a road every seven (7), six (6) miles maybe.

MR. KEN SAUVE: Our aim is to pave some main ones and then the traffic from where they're doing the development would go over and get on those right away instead of taking twenty (20) miles to get to a -- to a major road that would handle that equipment without damaging it. So that's -- that's our plan in the County, is to major -- pave some major ones that would be on band surfaces.

MR. EVAN CHRAPKO: Thank you.

THE CHAIRPERSON: Judith...?

MS. JUDITH DWARKIN: Thanks. Good

afternoon. Have you ever asked the energy companies, i.e., Encana, to pony-up to pay for some of the roads that they -- they particularly like to use to get to their operations?

MR. GLENN KOESTER: EnCana come to us two (2) years ago and we have a few roads in the County that are band surfaces. We call them Saskatchewan pavement; I think you're probably aware of what that is. We have other names for it, too, but that's -- that's the polite name.

And, yeah, they approached us 'cause they have activity on it and when we give them the price of what it cost, they said thank you very much but -- but no.

EnCana will build some roads on undeveloped road allowances, if they need it. And we have a special category for that called the Resource Road Status and they're responsible for the entire road. But if anybody wants to develop on that road, it's up to them to upgrade it to -- to what we call a municipal standard.

Yeah, we've -- we've asked and -- but they pay taxes, too, and they don't want to be the -- I guess when you have so many players, they don't want to be the one providing the funding and everybody else benefits from it.

MS. JUDITH DWARKIN: Although they are 70 percent of the --

MR. GLENN KOESTER: Although they are.

MS. JUDITH DWARKIN: -- market in your county.

MR. GLENN KOESTER: I don't want to leave the impression that EnCana isn't good to work with. They --

MS. JUDITH DWARKIN: Mm-hm.

MR. GLENN KOESTER: -- they -- they are probably the best I would say in the County.

MS. JUDITH DWARKIN: Thank you.

THE CHAIRPERSON: Andre...?

MR. KEN SAUVE: Sorry. They -- when they come into our area to make a play on a special area, they're interested in the roads, but you can't build them immediately and by the time we get okay, all our engineering and everything in line then they're gone out of that area.

And when we -- so by the time we approach them, yeah, we'd like this road built, well, then usually they're just down to servicing the wells in that area, so it's -- it's a hard -- hard task to catch up to.

THE CHAIRPERSON: Andre...?

MR. ANDRE PLOURDE: Thank you. Thanks

for your presentation. And I'll -- I'll read the material later.

MR. GLENN KOESTER: Good, thanks a lot.

MR. ANDRE PLOURDE: My apologies, I just got it, just got it now. Question for you.

In terms of providing financial support for counties that are quite affected or -- or municipalities quite affected by these activities, there are other mechanisms, things like, you know, kind of business taxes or M&E taxes or the drilling equi -- well drilling equipment tax, those kinds of things.

Would these other mechanisms also be acceptable to you instead of a share of the royalty, if you had more flexibility on those mechanisms?

MR. KEN SAUVE: As long as we get the money.

MR. GLENN KOESTER: Yeah.

MR. KEN SAUVE: I -- we -- really, we haven't been down that -- that path. Royalties seemed like it was the one that was on -- on the plate now and -- and that's why we presented to -- to it. And we had a made a resolution that, as it says in here, to the AMD -- Association of Municipal Districts and Counties for Alberta to -- to -- for royalties back in -- two (2) years ago.

MR. GLENN KOESTER: '04, I think.

MR. KEN SAUVE: Yeah, '04, so this isn't something that just come up now. But with this opportunity to make a presentation in front of --

MR. ANDRE PLOURDE: Mm-hm.

MR. KEN SAUVE: -- this panel, we -- that's why we've come forward with this.

MR. GLENN KOESTER: And I guess I will -- why we like the royalty approach, we find that to be the most fair. The ones that are making the money are the ones that are paying. If -- if a new smaller outfit comes in tomorrow and has to start paying for the infrastructure and the other ones had been here for -- and Pan Canadians been around for decades. You know, with -- with -- to me, it's the fairest way 'cause actual participants are contributing on a production type model.

MR. ANDRE PLOURDE: Okay, thank you.

MR. GLENN KOESTER: I don't know if it's fair or not.

MR. ANDRE PLOURDE: Okay, thanks.

THE CHAIRPERSON: Sam...?

MR. SAM SPANGLET: Thanks. I understand concern, we've heard it from a few municipalities and thanks very much, I got all I need. Thanks. I don't have any question. I understand the concern.

MR. KEN SAUVE: Thank you.

THE CHAIRPERSON: Ken...?

MR. KEN MCKENZIE: Andre asked some of the stuff I was going to, but -- so I'll just build a little bit on that.

You talked about at the very beginning when you were going through the -- the big increase in the number of wells in the county that has occurred over -- over the last several years and also the increased assessment values.

Are there any issues that you want to talk to me about at -- associated with assessment --

MR. GLENN KOESTER: Yeah.

MR. KEN MCKENZIE: -- on the well side? I kind of sensed --

MR. GLENN KOESTER: Thank you.

MR. KEN MCKENZIE: -- that -- that you might have something to say about that.

MR. GLENN KOESTER: Oh, gosh, I don't -- oh, here's. There's a condensed one in the thing there.

MR. KEN MCKENZIE: Mm-hm.

MR. GLENN KOESTER: But here in 2003 the average assessment for a -- for all our wells was fifty thousand dollars ($50,000) --

MR. KEN MCKENZIE: Mm-hm.

MR. GLENN KOESTER: -- and -- and now it's bumped up to eight thousand (80,000).

And as an example in here, they have a water source, I'm taking to be a water well, three (3) of them, and the average assessment on that is nineteen hundred and sixty dollars ($1,960).

Now, we all know it costs more than that to -- to drill a water well. I guess the point what I'm getting at, these assessments are -- they're regulated and they're just given to us. But we know, from being told from our assessors, that when they get this assessment it's already 25 percent off and then another 50 per -- and then eventu -- we're only getting, in that 50 to 60 percent range, but we don't know if it's a fair market. It's regulated and we just get the paper.

But it's throwed into a class called Nonresidential and in this nonresidential class we have, I always refer them to as Joe Sandblaster or -- or the -- the painter or some little family operation, a business, and our assessors go in there and it's a 100 percent market value, is what they have to pay tax on.

So we can't say, oh, this is energy sector, we will charge you an extra mill to get our road money, we're also affecting our ratepayers that are paying on a 100 percent. And we find that very unequitable when they're paying we know at least 50 percent below.

MR. KEN MCKENZIE: And this is part of the assessment regulations that they lower the assessed -- the value --

MR. GLENN KOESTER: It's part of the game.

MR. KEN MCKENZIE: Right.

MR. KEN SAUVE: It's -- it's depreciated before we can assess it right off -- even if it's brand new, it's depreciated. And I think it brings it down to about 58 percent from what I -- 56 percent or something of -- of the -- of the actual value of it before we start assessing.

MR. KEN MCKENZIE: Okay. Okay, so there is an issue there.

MR. GLENN KOESTER: There is and -- and it was kind -- it's before the -- our Association of Counties, a split mill rate and this is the answer. Or that's why we're looking at split mill rates, too, to try and make it more fair. If they would assess it at market value, a lot of these problems would maybe go away.

MR. KEN MCKENZIE: So split mill in -- in --within the non-residential section?

MR. GLENN KOESTER: Non-residential.

Exactly. Because according to the Tax Act, all --

MR. KEN MCKENZIE: Clump together.

MR. GLENN KOESTER: -- all comes together and you can't charge different rates within the same class. You can charge different rates for farm, residential and non-residential, but anything in that class, you cannot charge a different rate. Nor can you charge a higher rate and rebate taxes back to lucky individuals.

MR. KEN MCKENZIE: Mm-hm. Thank you.

THE CHAIRPERSON: Thank you very much, gentlemen, for your presentation this afternoon. We really appreciate that.

MR. GLENN KOESTER: You're welcome. Thanks a lot.

MR. KEN SAUVE: We really appreciate what you folks have done.

THE CHAIRPERSON: Oh, thank you.

Ladies and gentlemen, that concludes our visit to Medicine Hat. It's only fitting that our last opportunity to hear from the public is where it all started, as I understand it. I've been educated that the first gas well was here -- near here in 1883, and I really appreciate that.

I'll ignore the shot about Saskatchewan

highways having been grown up as a farm kid there. But on that same note, and on behalf of the Panel, thanks very much for your contributions.

--- Upon adjourning at 3:13 p.m.

Certified Correct,

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Wendy Warnock, Ms.