

# Alberta Natural Gas and Conventional Oil Investment Competitiveness Study 2009





# Our Approach

# Vision

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- Alberta is a vibrant and attractive place to live, work, and invest, with outstanding opportunities for current and future generations.
- Alberta's fiscal and regulatory structure helps enable the natural gas and conventional oil sector to be competitive, successful, and sustainable, delivering maximum value for Albertans.
- Alberta's resource management framework reflects trusting and lasting relationships among all stakeholders.

# Building Blocks

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Our building blocks for a successful project include:

- Forming and maintaining strong lasting relationships with our stakeholders.
- Sharing industry and financial information with each other to inform investment competitiveness questions.
- Sharing questions and advising on the key question we all have for this study.

# Key Question

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Is Alberta competitive for investment within the natural gas and conventional oil sector?

# Project Overview

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## Project Goals

- Improved working relationship between Alberta Department of Energy, industry and the financial sector.
- A common understanding of Alberta's investment competitiveness within the natural gas and conventional oil sectors.
- Recommendations for consideration by the Minister of Energy and Executive Council.

## Integrated Processes

- Stakeholder engagement.
- Effective dialogue – Two-way communication.
- Solid, well planned approach and timely execution.
- Strong and effective project management office.

# Project Scope

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- For the purposes of this investment competitiveness study, dialogue will be limited to the economic and financial aspects of investment competitiveness, including investors' perceptions.
- While tenure and regulatory issues are being addressed in separate processes, the *related* economic and financial aspects will be assessed in this study.
- We recognize that there are other stakeholders, however, the purpose of this study is to gather essential information around investment levels and competitiveness.

# Our Expectations

## The Investment Competitiveness Study Is:

- Looking at whether natural gas and conventional oil investment in Alberta is competitive for investment.
- Future-focused
- About validating and making recommendations on the current and expected future state of natural gas and conventional oil investment competitiveness.
- A cooperative joint approach from industry, government and the financial sector.

## The Investment Competitiveness Study Is Not:

- Predetermining outcomes before discussion and debate.

# Key Project Stakeholders

## Project Management Committee

Government of Alberta

Oil and Gas Industry

Financial Sector

Pipelines Sector

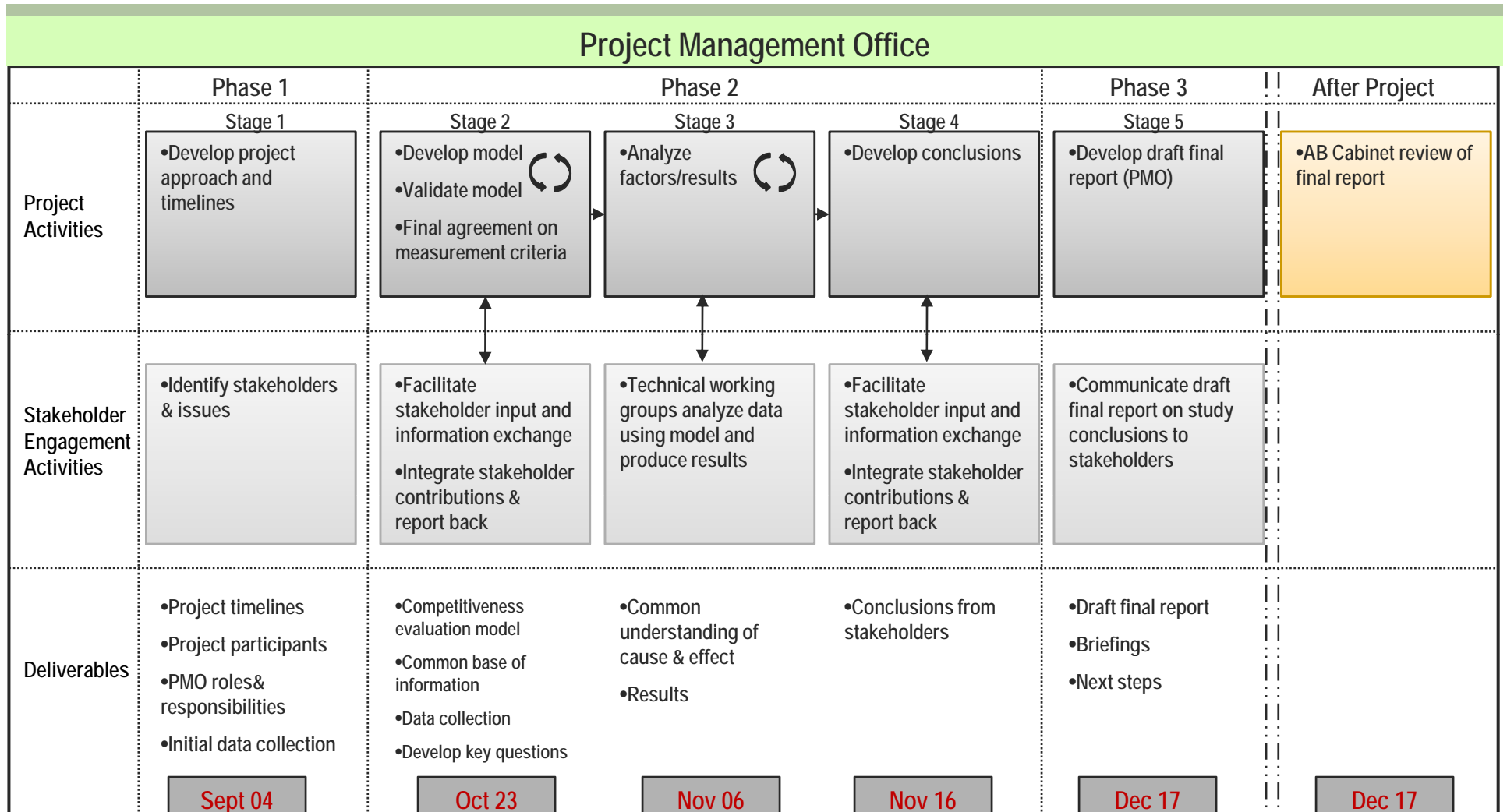
To inform, debate, validate and participate in, the investment competitiveness study, through a combination of interviews, interdisciplinary workshops and focus groups.

*All stakeholder groups will be comprised of executives (CEO's) who will be interviewed, and technical/data experts who will form a large part of the working groups and inter-disciplinary team.*

# Decision-Making Process



# Project Approach



## Communications



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# Our Progress To-Date

# Technical/Data Stream Update

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## Focus:

- To ensure an accurate understanding of Alberta's competitive position for natural gas and conventional oil.
- Investment competitiveness will be determined on the basis of discounted cash-flow analysis and established and accepted investment criteria.
- Participants include oil and gas companies, and related industry associations as well as the Alberta Department of Energy.
- Data acquisition kicked off July 20<sup>th</sup>.
- 27 natural gas submissions – data validation nearing completion.
- 11 Conventional oil submissions – data validation initiated; additional information required.

# Technical/Data – Measures of Competitiveness

## Factors of Competitiveness that are being reviewed:

- Type Well Economics:
  - Rate of Return (IROR)
  - Cost per Unit (Barrel of Oil or Mcf of Natural Gas)
  - Net Present Value (NPV)
  - Degree of Fiscal Front End Loading
  - Expected Monetary Value (EMV)
  - Resource Owner Share
  - Profitability Ratio (PFR)
  - Price / Cost Ratio
  - Risked PFR
  - Payout Time (months)
  - Fiscal System Performance: Equity, Efficiency, Neutrality, and Robustness
  - Incremental Investment Impacts e.g., Company Taxable Position – full credit vs. stand alone, (new entrants)

# Technical/Data – Measures of Competitiveness

- Resource Characteristics:
  - Resource in place
  - Recoverable resources
- Current Conditions:
  - Recent & Existing production levels.
  - Recent & Existing activity levels: investment, producing wells, wells drilled by year.
  - Existing fiscal structures: statutory tax rates, royalty rates, other production levies.
  - Differences in cost structures (how much does the same well cost in different jurisdictions).
  - Relative returns (ROCE, ROE, ROI).

# Project Management Office Team Progress

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- Project Management Office established.
- Roles, responsibilities, project timelines validated.
- Key Deputy Ministers briefed on current progress.
- Stakeholder engagement lists and processes completed.
- List of key questions to guide the study developed.
- Initial meetings and focus groups with industry and government groups facilitated.
- Detailed timeline developed for stakeholder engagement process and a calendar of events for workshops, meetings etc. with key stakeholders.

# List of Key Stakeholders

Stakeholder Category	Stakeholder Group (executive and technical experts who have the data)	Method(s) of Engagement
Government of Alberta	Executive Level (Premier, Cabinet, Ministers, Deputy Ministers, Special Committees)	Interviews/ Report/ Briefing (strategic)
	Alberta Energy	Interviews/ Focus Group/ Workshops (strategic and technical)
	Department of Finance and Enterprise	Focus Group/ Workshops (strategic)
	Treasury Board	Focus Group/ Workshops (strategic)
	Environment	Focus Group/ Workshops (strategic)
	ERCB	Focus Group/ Workshops (strategic)
Federal Government	National Energy Board	Workshops
Oil and Gas	Industry Associations (CAPP/ SEPAC)	Focus Group/ Workshops (strategic)
	Large CAPS (CEO's)	Interviews/ Workshop Rep (strategic)
	Small Producers/ Juniors and Mid-Caps	Focus Group/ Workshops (strategic)
	Working Groups (oil and gas)	Focus Group/ Workshops (strategic and technical)

# List of Key Stakeholders

Stakeholder Category	Stakeholder Group (executive and technical experts who have the data)	Method(s) of Engagement
Financial Sector	Bankers: Corporate and Investment Banking	Interviews/ Workshops (strategic and technical)
	Investors: Public, Private and Institutional	Interviews/Workshops (strategic and technical)
Pipeline Sector	Trans Canada	Interviews/ Workshops
	Enbridge	



# Next Steps

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- One-on-one executive interviews to discuss competitiveness factors, key issues, and industry success in the future.
- Analysis of data by the technical data team.
- Interdisciplinary team workshops and focus groups to develop and confirm competitiveness evaluation model, review results of the modeling and analysis, and develop conclusions and recommendations .