

## ROYALTY REVIEW

Here is a summary of my thoughts on the proposed changes to Oil and Gas Royalties in the province of Alberta.

This all started because someone said 'Albertan's are losing billions in royalties every year'. This is a fallacy. If the Government starts raising royalties it will lose monies elsewhere.

- Companies re-invest in the oil patch. If they have less revenue they will re-invest less.
- E&P companies hire service companies. Both have employees who pay income taxes. Laid off workers don't pay taxes.
- Working people buy things and build houses. Without jobs retail business and home builders will also be cutting back.
- E&P companies buy crown land at land sales, directly injecting cash into government coffers. This will slow down dramatically (in fact already is).

As soon as royalties increase all of these other things decrease. Whoever cited the 'billions' that Albertan's are losing didn't work the whole equation. In the long term all Albertan's will suffer losses if the oil patch is taxed more heavily.

### **Gas focused E&P Companies.**

Most E&P companies get a large portion of their reserves and production from natural gas because the Western Canadian Sedimentary Basin is very mature

and conventional oil is difficult to find. Every year, on average, new discoveries get smaller. Smaller pools and deeper pools cost more to find, in terms of seismic and drilling.

In the last three years the Canadian dollar has gone from about \$.66 US to essentially par. This results in a loss of approximately 50% in revenues right off the top for oil companies.

US companies are still drilling steadily for gas with little sign of a slowdown. Canadian gas companies have cut back drilling substantially in the last year. Why?

- Partly it's the US dollar exchange losses.
- Natural Gas prices have fallen from the US \$ 8 – 10/MCF range to the US \$ 5 – 6/MCF dollar range.
- Transportation costs. Cdn producers get about \$4.50 per MCF while their American counterparts get around \$6.00 per MCF.
- US companies have fewer regulatory hurdles to deal with when licensing wells
- US companies have less environmental red tape to deal with
- LNG's have become competitive in the gas market effectively capping prices in the long term. A short term price spike could occur but sustained high prices are not realistic.
- Gas storage is at record highs. This is partly due to a couple of warmer than average winters, and partly due to strong US gas deliveries.

Therefore, Canadian explorers are already at a huge disadvantage. The bottom line is that if the Alberta Government raises royalties on gas producers it will be extremely detrimental. At this juncture **gas companies need a break in royalties** in order to even be close to competitive to their American counterparts.

As things stand right now many **gas weighted companies are not doing well**, and with record storage levels the outlook is negative. Many companies are already feeling the pinch; another soft winter and many will close their doors. Drilling and service rigs will sit idle. Many service companies will follow suit by laying off workers. And the trickle-down effect will continue right down to the average home owner who will see the price of his home decline. Is this what the Alberta government wants?

### **Tax Grab**

From where I sit as an average oil company worker in Calgary this whole thing looks like a tax grab. It's not too different from Russia where they invite a company in, then lower the tax boom because the company makes money. Companies learn fast not to invest in that environment. Alberta claims to be sitting on a world class reserve, worth untold billions, but nobody would know it - and nobody would have figured out how to make the tar produce - if weren't for a lot of time and investment by oil companies. Then the companies start making some money - never mind that they've struggled for a decade through the bad times - and everybody points fingers and makes them out to be the bad guys. Everybody wants a piece of the pie, even though they've had nothing to do with making the pie. In my opinion the Government should never get more than 50% of the revenue from a resource. The government doesn't take the risk to find it, or invest the money to develop it. To repeat the point, governments wouldn't even know of the wealth under their own soil if it weren't for innovative risk takers finding it. I say 50% is max, and any more is greedy. (I'm not recommending this, but if governments want a bigger piece, let them invest in these projects, take some risk and see how much fun it is. There is a lot of disappointment along with the reward and it's a longer, tougher road than people realize).

### **Higher productivity Wells**

Speaking of risk, the concept of taxing higher productivity gas wells more than lower productivity wells demonstrates a complete lack of understanding of how the business works. Again it smacks of punishment for success. Higher productivity wells are found at greater depths and constitute higher risk. They cost more to prospect for in terms of seismic, time, drilling and completions. For that companies should be rewarded, not penalized. In fact, if I were the Energy Minister I would encourage companies to take higher risks. What has evolved in the basin in the last decade or more is the move to smaller companies who don't have the deep pockets to take on higher risk. They are the ones who have spearheaded the trend toward shallow, low productivity wells. If more companies were encouraged to drill deeper more high-rate wells would be found, and who knows what else might be found on the way down to these deeper targets. I would think this would be a good thing for the province. This should be encouraged, not discouraged.

### **Boom and Bust**

Furthermore, another downturn is coming. The oil business is a 'boom and bust' business. Companies need to get their rewards when times are good so they can weather the bad times and keep the hope alive that money can be made again someday. For gas companies the boom is over and the bust is well on its way. For oil companies, it's coming.

I like the old adage "IF IT AIN'T BROKE, DON'T FIX IT". As far as I'm concerned the present royalty structure has stimulated investment in the oil patch and brought Alberta to the forefront globally. Alberta is plenty well off with its low tax regime, robust growth, no debt, surplus budgets and Heritage fund. It's the envy of all the other provinces and many countries too, I'm sure. Let's not get greedy and kill the goose that continually lays the golden eggs. Meddling will result in Albertan's being worse off, not better.

Thank you for taking the time to read my letter. I know I'm only a small voice in a sea of voices. I have rarely written to anyone in government regarding issues that concern me, but this issue goes against everything that I thought Alberta stood for, and I'm gravely concerned. Let's let free enterprise run its course and be global leaders on the low tax end instead of following others into tax stagnation.

I am writing this letter with grave concerns of the government's stance on the new taxation to the oil and gas industry.

Is it necessary to collapse such a strong economy with these outrageous tax proposals? No company can withstand these kinds of increases without a serious impact, and an impact on such oil and gas companies creates a ripple

effect to all of the smaller service companies that employ the manpower that

> drives the economy. These smaller companies have roots in local Alberta  
> giving jobs to the local Albertan.

. I am an average Albertan with a local job in the oil and gas industry.  
. If

. these taxations go forward, and there is a downturn in the industry, the  
> company I work for will drastically cut their E&P programs potentially  
> resulting in the loss of mine and other's jobs.

I have worked hard all of my life to support my family and do not think I could go through telling my children

> that there is no food on the table because there is no money, because  
> there

> is no job, because there is no work, because the government got greedy.  
> Or

> maybe one of the panel members could explain this to my family when the  
> time

> comes.  
>

> I would like to know when my voice and others will be heard over these  
> ignorant

> bureaucrats and the "PANEL" because their poorly thought out decisions  
> affect

> me the most "THE AVERAGE ALBERTAN". I speak for myself and hundreds of  
> thousands of

... that did not write a letter, but speak the same voice. **RRG**

**00000692**

We need to find an equilibrium, a mutual agreement to keep  
a healthy economy and a healthy infrastructure for us now and our  
children  
in the future.

\* Information Removed

I am not one who often writes to elected officials but I am particularly concerned over the royalty issue that is before the legislators right now. I feel that it is important to voice my opinions at this time.

\* I am the president of an engineering consulting firm that employs around 67 people working in the oil and gas sector. We are directly dependant on the capital projects that oil and gas firms undertake in the province. Whenever an issue arises that has the potential to negatively affect these capital programs it has the potential to severely impact my ability to get work and therefore the livelihoods of all the people working for me. My concern is that this royalty issue (if handled poorly) will result in a curtailment of capital spending which would not be good for me or the people I employ.

The royalty report that was recently issued speaks about a "fair share" for Albertans. It seems to me that the robust economy, the abundance of good jobs and the provincial surpluses that we are enjoying is a pretty fair share in itself. I am not sure why anyone would want to tinker with this success but I suppose there are always people who will see the oil patch as a cash cow that needs to be milked vigorously. From the feedback I am getting in discussion throughout my industry, I suspect the loss of tax revenue and spin off benefits as a result of reduced capital spending due to a royalty change would be far greater than the potential \$2 billion dollars of extra royalty revenue that might be available assuming capital spending continues unabated.

I am disappointed with the way that this issue has been handled from the outset. It appears to me that an unelected panel is now dictating policy to our elected leaders. If this is an example of the leadership that we can expect from the Stelmach government then many people including myself will be reconsidering their support for the PC party.

Understanding that you have placed yourself into a position where you must do something, I very much encourage you to tread very carefully and slowly in dealing with this matter. Please take seriously the consequences of capital money fleeing the province. Please consider grandfathering projects that have based their economics on the rules that they believed were in place when capital was committed. Please implement any changes over a sufficiently long period of time to lessen the impact of rapid change on project economics.

The wealth and standard of living that this province enjoys is fragile. I would hate to see this province shoot itself in the foot by mishandling this very important matter.

After a review of the Royalty Review Panel Report, I am a very concerned Albertan compelled to write to the PC caucus. \* Information Removed

\* I am \_\_\_\_\_ and we are in the midst of our \_\_\_\_\_. Our riding has a large population of professionals, trades and other workers employed directly in the exploration for, development and production of conventional crude oil and natural gas as well as the oil sands. I, personally, made a written submission to the Royalty Review Panel based on fact and tempered by professional experience.

Drawing on my experience as a born and bred Albertan and one professionally involved in the oilpatch for 32 years, implementation of the higher royalty rates suggested in the Panel Report for conventional oil and gas would be a more destructive stroke to our Province than that foisted on Western Canada in 1981 by the Trudeau Liberals.

The business that has formed the backbone of a vibrant economy in this Province for nearly a century, the exploration for and production of crude oil and natural gas is, at the moment, fragile. Fragile due to the flight of capital--foreign *and* domestic--that began last fall with the Feds move on trusts. Fragile due to the relentless ramping up of input costs. Fragile due to the perceived softening of natural gas prices for the medium and long term. Fragile due to the unknown environmental cost this business will be forced to carry if current federal government policy leanings are followed.

Do Albertans want a continued strong employment and investment picture over an entire industry and, by direct extension, the entire Province? Or do we want to irreparably impair the health of the economic engine that has been and could continue to be key to our robust economy, a positive and bright future? I believe that the roots and values of the caucus, our party and a vast majority of the citizens of Alberta will answer 'Yes' to the former and 'No' to the latter.

Removal of a large portion of revenue directly from the bottom line of the oil and gas business, as contemplated in the Panel Report, will reduce even more money that could be, and is, reinvested in commercial activity within this Province. Conventional oil and gas companies, in total, invest more than 100% of their cash flow. Where is that money spent? Reinvestment goes to those proverbial 'mom and pop' service sector operations in small locales across the Province, to the local welder, the local farmer, the local café, the local trucker, the local garage; *that* is where those dollars go! It was, ladies and gentlemen, personal income tax dollars that created the lion's share (\$411 million) of the unbudgeted \$830 million revenue surplus that this government re-invested in August, not royalties, which, from conventional oil and gas were \$182 million *below* budgeted levels.

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\* In 2006, the company drilled a high productivity well which would, using the proposed royalty rates proposed by the Panel Report, be paying a 50% royalty. If that rate had been built into the front end economic evaluation of the prospect, taking into consideration the risks involved, the well would never have been drilled! The Western Canadian Sedimentary Basin in Alberta is a mature exploration and development area, where the targets are now smaller and have a relatively shorter (i.e. less than 10 years) economic life. No longer is Alberta an emerging producing area, like we were in the '50s or offshore Newfoundland might be today. There needs to be continued economic incentive and reward for those who take the risk, make the investment, find and produce larger pools of reserves in this Province, not punishment by being afforded the "right" to a higher rate of economic rent. A *huge number of Albertans* have invested and are prepared to continue to invest a good deal of our own money (capital generated in Alberta!) aimed at finding more of those types of oil and gas pools in this Province. That will only happen, however, under the current or something near the current fiscal regime.

The oil and gas business is not all a gray, faceless group of pernicious, greedy, uncaring suits sitting around a smoky boardroom in New York, Houston or The Hague. We have a huge portion of the business *based in Alberta* with investors from all over the globe. Those businesses are directed by experienced, capable and responsible *Albertans* and most of us want to work where we live. But as with all savvy investors, capital will move to where it will earn a "fair" return. With the implementation of the Panel Report, as is, Alberta will tarnish, indeed lose, our reputation as being a reliable and profitable safe haven for energy investment.

I urge the caucus not to endorse legislation or regulation that would destroy small business, eliminate jobs and personal income tax dollars, result in the loss of investment dollars and impair continued exploration and development for both conventional crude oil and natural gas and oil sands.

My experience tells me that *all Albertans* would *not* be best served by the higher royalty rates the Panel outlines. My gut tells me that manufacturing jobs in fabricating shops in Nisku, Vegreville, in Ontario and other places across the country created and sustained by oil sands development will evaporate with investment dollars. And that's not healthy for *any Albertan*.

The people of Alberta, the business and the investment community must have a firm, blunt, straight forward, well communicated response from Premier Stelmach and Caucus. Mr. Stelmach has always said his actions and that of his government must be beneficial to *all Albertans*. I want *all Albertans* to do as I do, believe him and believe in him.

This, ladies and gentlemen, is a crucial period; it will test the mettle of this government and its response will go a long way to enhancing either its re-election or the alternative.

\* Information Removed

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Dear Premier

I regret that I did not take the opportunity offered earlier to submit comments to the Royalty Review Panel. I never envisaged that such a devastating report would be submitted to the Government and to Albertans. I therefore now ask you and Cabinet to consider a few brief relevant points.

- \* By way of background, I spent my [redacted] on a farm [redacted] area) and
- \* thereafter obtained a degree from the [redacted] which led to employment in the oil and gas
- \* industry, both in large and small companies. Over the span of [redacted] years I have had the opportunity to witness a lot of things that have been done right by the Provinces/Industry and some that have been done wrong.

The oil and gas industry has unusual attributes which the public and special interest groups should seriously think about when ask for their "fair" share. It requires large up-front risk expenditures to assemble (buy lease rights), do seismic work, drill wells, operate and produce wells – that may or not be successful. From this, there is an immense storehouse of information and expertise developed that is then used to create new ventures and investments. However, this wealth of expertise can be destroyed in a flash by inappropriate government action from which it would be very difficult and take a long time for the industry to recover. Further, the public should be reminded that while the oil or gas in the ground belongs to all Albertans, it is not worth a "plugged nickel" until some company or individual spends considerable money to find and produce it.

- \* We have models of government actions next door that have impacted negatively on the Industry. In ~1972 [redacted] the CPA, an organization that had been asked by the British Columbia Energy Commission to 'un-reat' the whirlwind that had been sown by the Barrett's government when it increased royalty 'take'. [It was reported that one rig was working at times] Then to the east we have Saskatchewan, a Province endowed with huge natural resources – but one that has been exporting its people to Alberta. For Saskatchewan, the answer 'why' is straightforward - a generally hostile attitude to business coupled with royalties deemed to high by investors. It is not unreasonable to ask – do we want to start exporting Albertans?

I have read only excerpts from the Review and so will comment on only two points: breaking a contract and comparison of Alberta royalties to other jurisdictions. The culture and integrity that has personified Albertans to my mind from our forefather's pioneer days through more than fifty years of industry has been the sanctity one's word or 'handshake' agreements. To break a contract is acting like a Chavez or a Putin –it is

abhorrent to me and I'm sure to most other Albertans' way of doing business. Because Lougheed did it, doesn't make it right.

Another point is the ridiculous comparison of the level of Alberta royalties to other jurisdictions. Apart from the individual rules in place in different countries, how do you compare a five month operating season to year-round operations or to operating in muskeg areas, or large areas of limited infrastructure, or to mining oil compared to flowing oil wells?

I know you are aware that many others in the Province have benefited from the industry productive sector. Many in agriculture, for example, have found permanent or part-time employment on rigs, batteries, facilities and received revenue from lease rentals and other sources that have enabled them to prosper or to retain their farms. The list of beneficiaries in many other areas is long.

Lastly, the Report portrays an in anti-industry bias – that “big oil” is ripping of the people. This anti-industry content is obvious from the comments of the “*Industry Wreckers*” – the Pembina Institute, Sierra Club and other similar NGO's – who have generally applauded the Report. It is remarkable how the immense benefits that have accrued to the citizens by the past Provincial management of the resources has been turned on its head to become a controversial and negative issue. The challenge is to reduce or eliminate the pressure that have occurred because of rapid development - not to kill our great resource.

There are probably good reasons to clarify and correct the current royalty system. However, for the benefit of all Albertans, I urge you and your Cabinet to set aside the major policy recommendations of the Royalty Review Panel.

~~\*~~ Information Removed