



Alberta's Oil and Gas Royalties

Economic Society of Calgary
2005 Fall Conference

Calgary Chamber of Commerce

David Daly
November 17, 2005



- **We are the voice of Canada's Upstream Oil and Gas Industry**
 - To enhance the well being and sustainability of the upstream Canadian oil and gas industry in a socially, environmentally and technically responsible and safe manner
- **150 producer member companies**
 - Explore for, develop and produce natural gas, natural gas liquids, crude oil, synthetic crude oil, bitumen and elemental sulphur throughout Canada
- **CAPP members produce more than 98 per cent of Canada's natural gas and crude oil**
- **125 associate members provide a wide range of services that support the upstream crude oil and natural gas industry**

Canada's Oil and Gas Industry in the North American Energy Economy



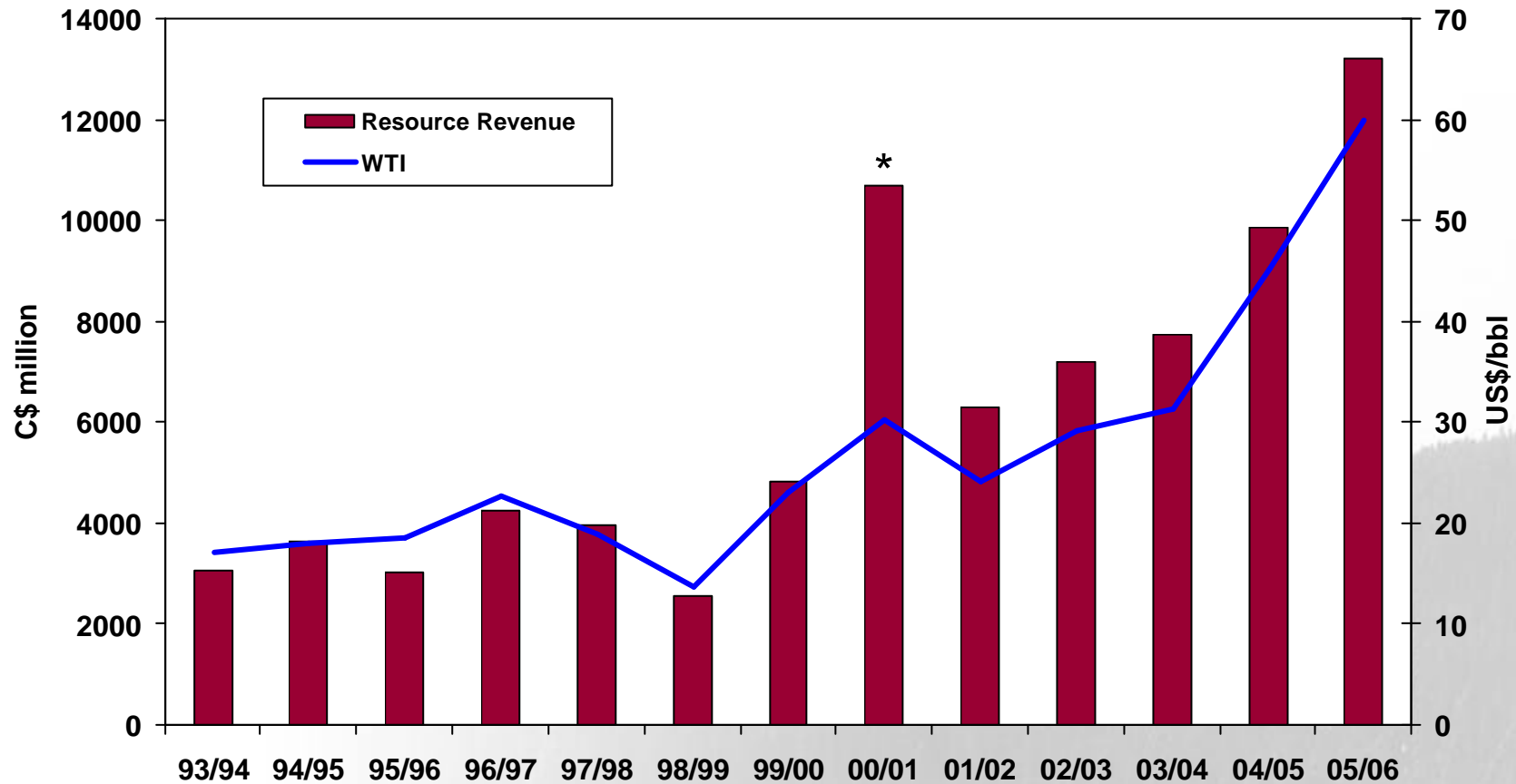
- **Canada is the world's 3rd largest natural gas producer**
- **Canada is the world's 9th largest crude oil producer**
 - and moving up the list quickly with oil sands production increasing
- **Industry Overview**
 - 500,000 jobs
 - \$37 Billion capital investment in 12 provinces and territories
 - \$20 Billion in payments to federal and provincial governments
 - #1 private sector investor in Canada
- **Industry Priorities**
 - Responsible development of Canadian resources through:
 - Efficient access to markets
 - Timely access to resources
 - Competitive fiscal and regulatory regimes



- **Crown royalties – payments province receives for production of**
 - Conventional crude oil
 - Natural gas
 - Oil sands
- **Rentals**
- **Fees**
- **Land bonuses**



Alberta Non-Renewable Resource Revenue



* High natural gas prices in winter 2000-01

Source: AB Finance and CAPP

- **Record level of \$13.2 billion forecast for 2005-06**
 - \$9.1 billion for natural gas (70%) – \$8.50/gj
 - \$2.4 billion for crude oil (18%) – US\$60/bbl
 - \$1.7 billion for bonuses, lease sales, fees and rentals (13%)
 - 40% of total government revenues
- **35% increase over \$9.8 billion in 2004-05**
 - 33% of total government revenues
- **Royalties = Price * Production**
 - High prices and record production levels responsible for record royalties

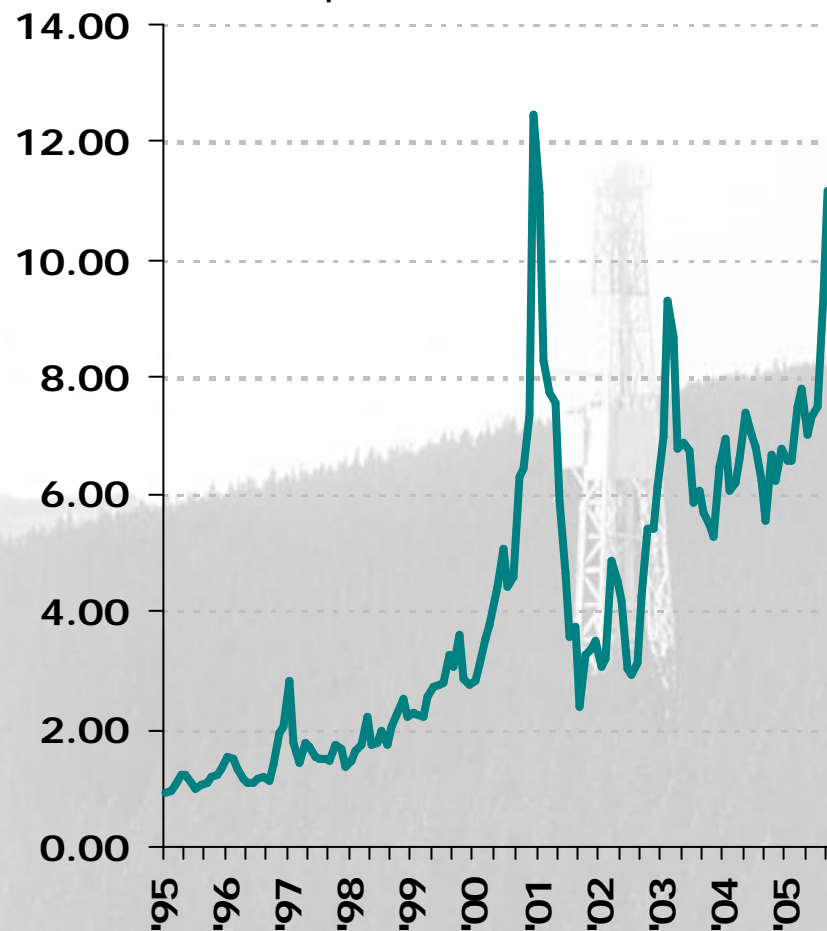
Crude Oil and Natural Gas prices



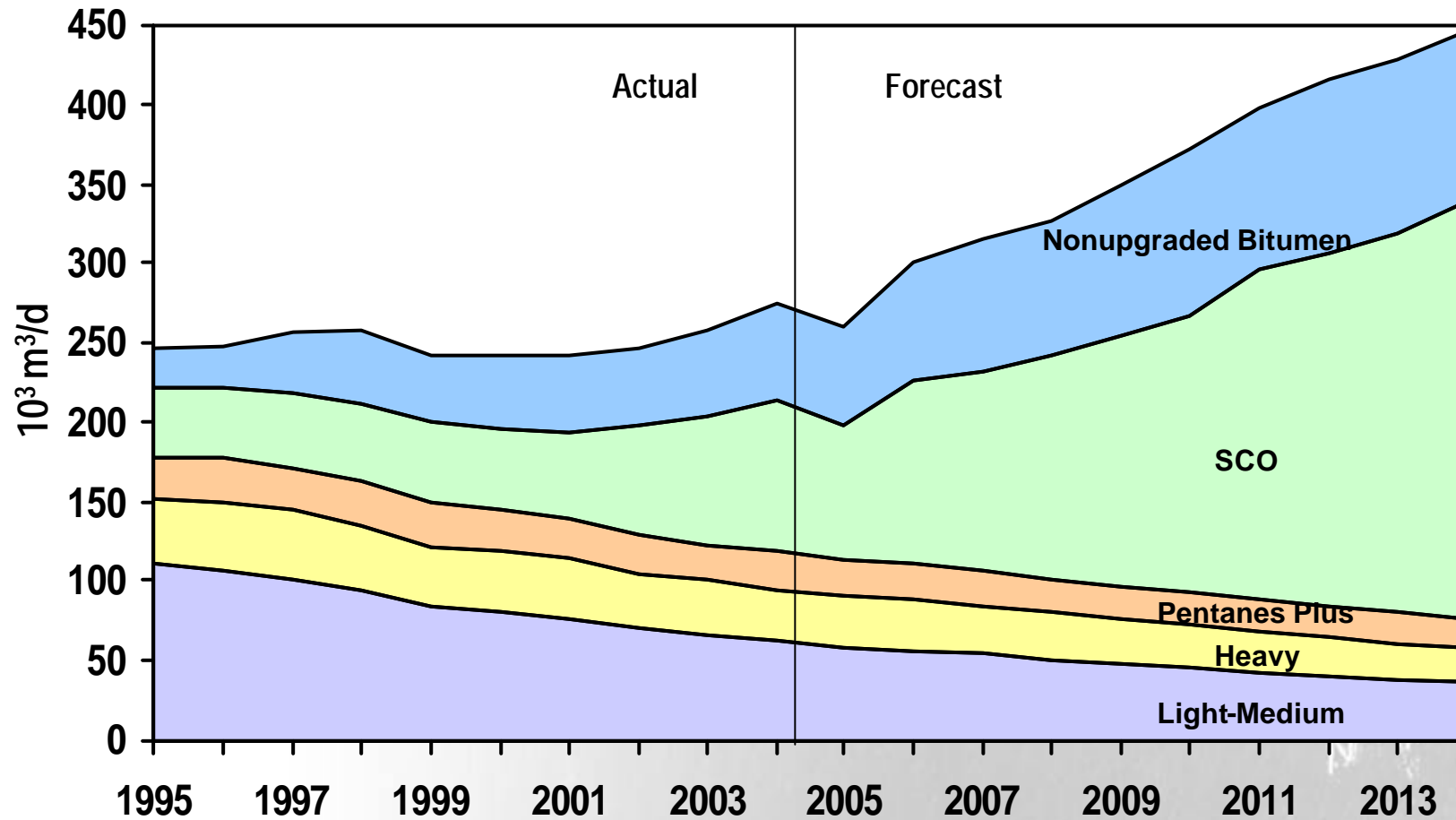
Crude Oil Prices
(WTI NYMEX)
\$US per barrel



Natural Gas Prices
(AECO Daily Spot Price)
\$Cdn/mcf

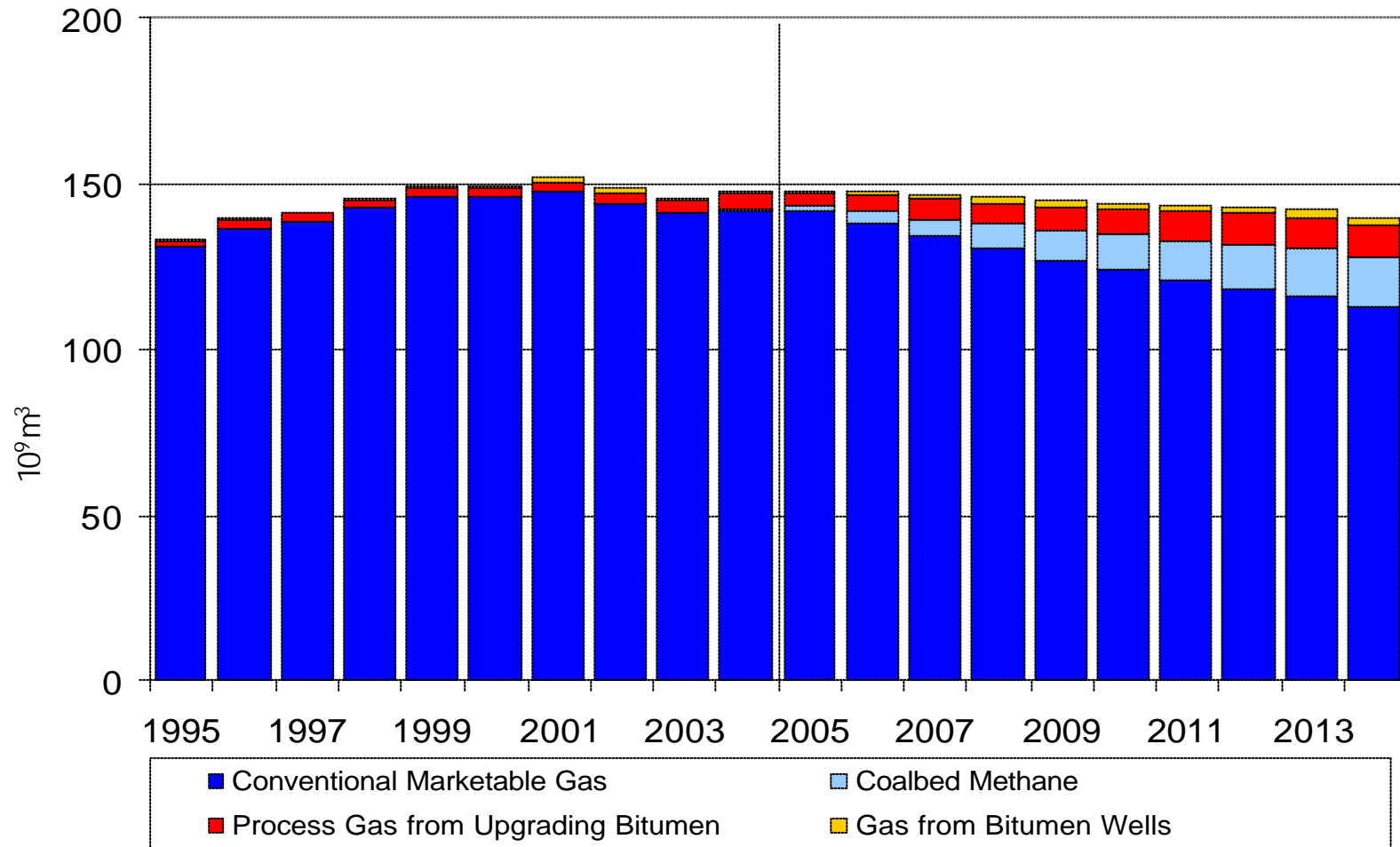


Alberta supply of crude oil and equivalent

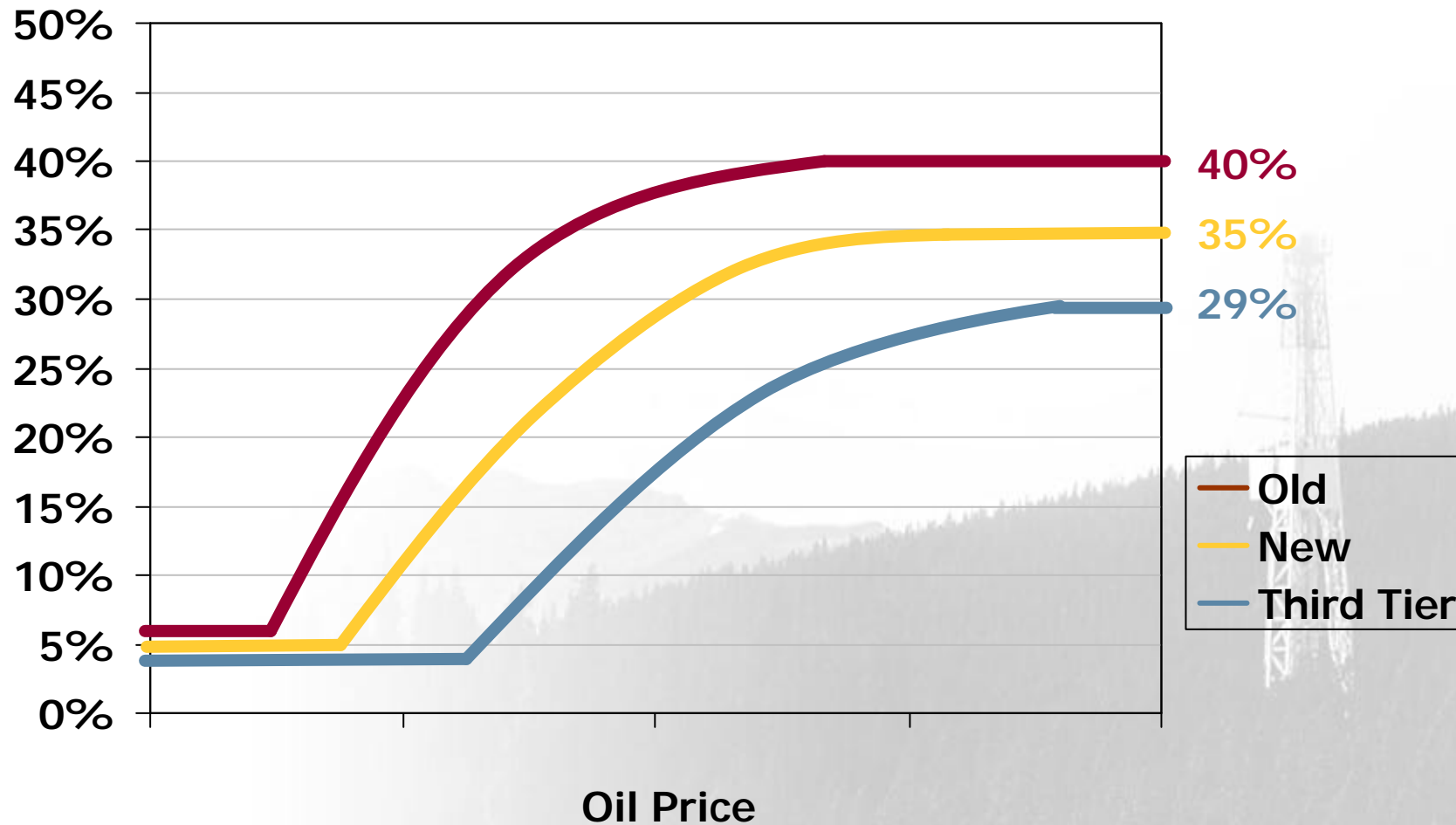


Source: EUB

Alberta total gas production

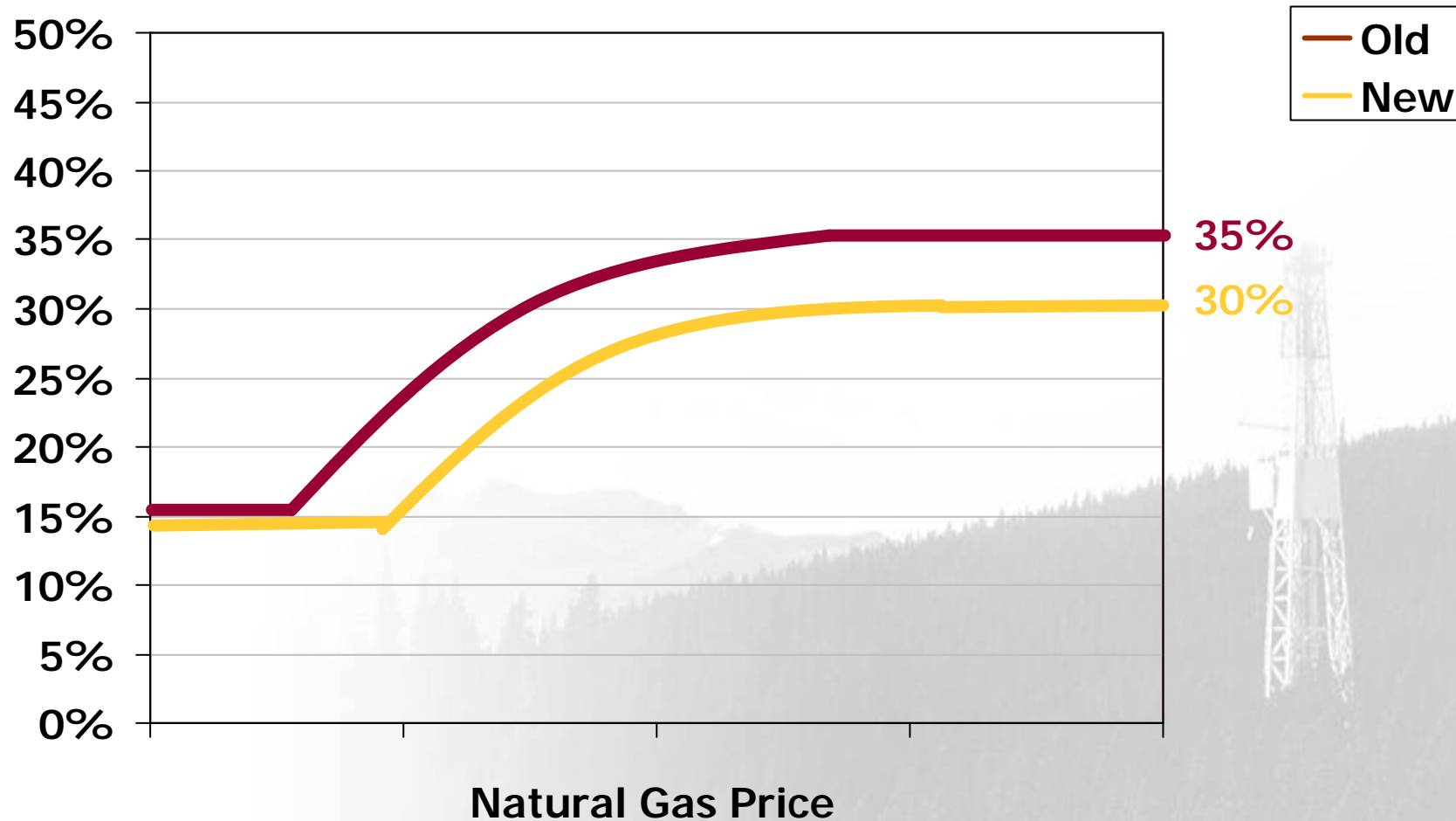


Conventional Oil Royalty Rates in Alberta Increases with Higher prices



Royalty rates also vary with production rate

Natural Gas Royalty Rates in Alberta Increases with Higher prices

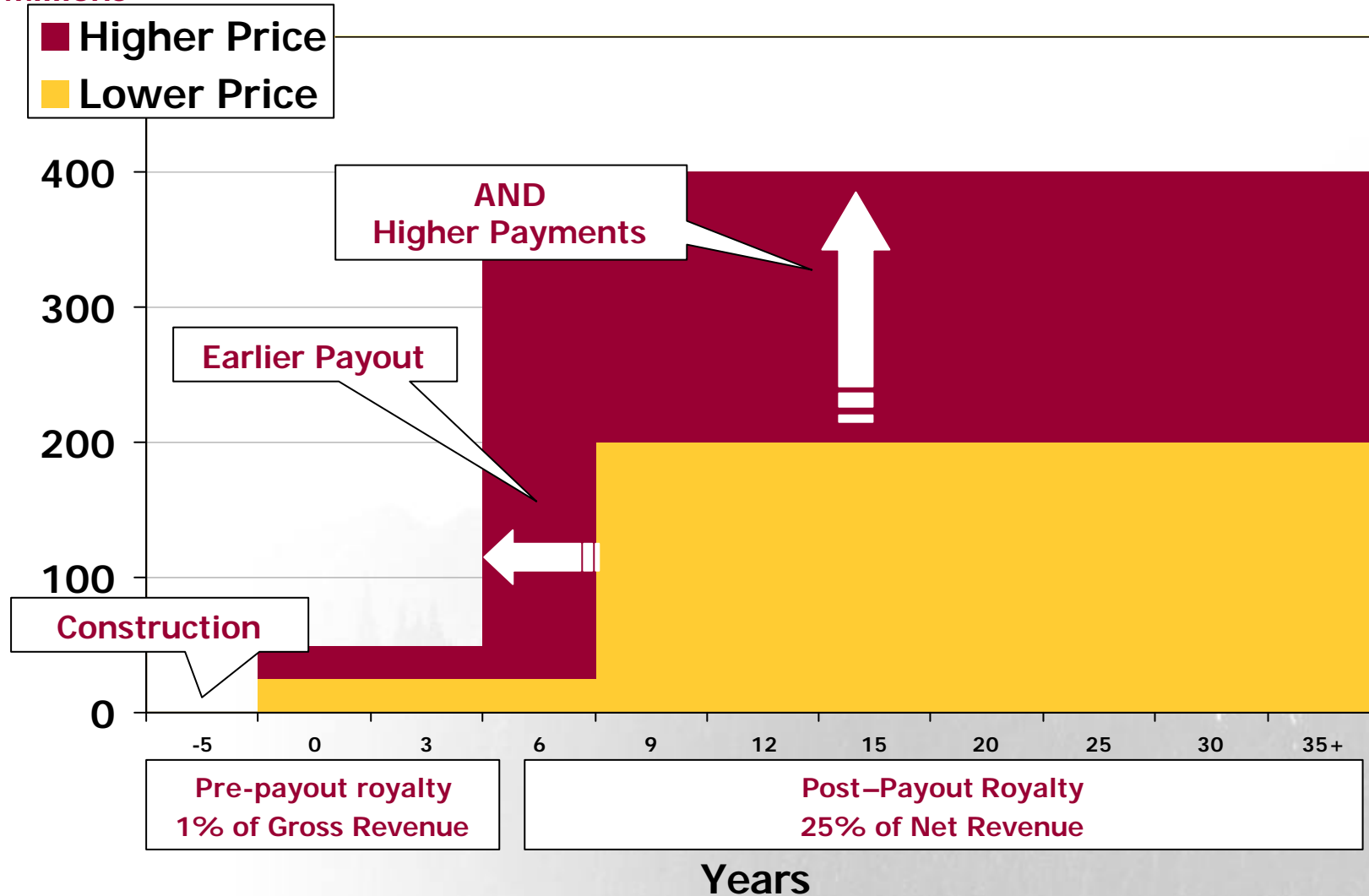


Royalty rates also vary with production rate

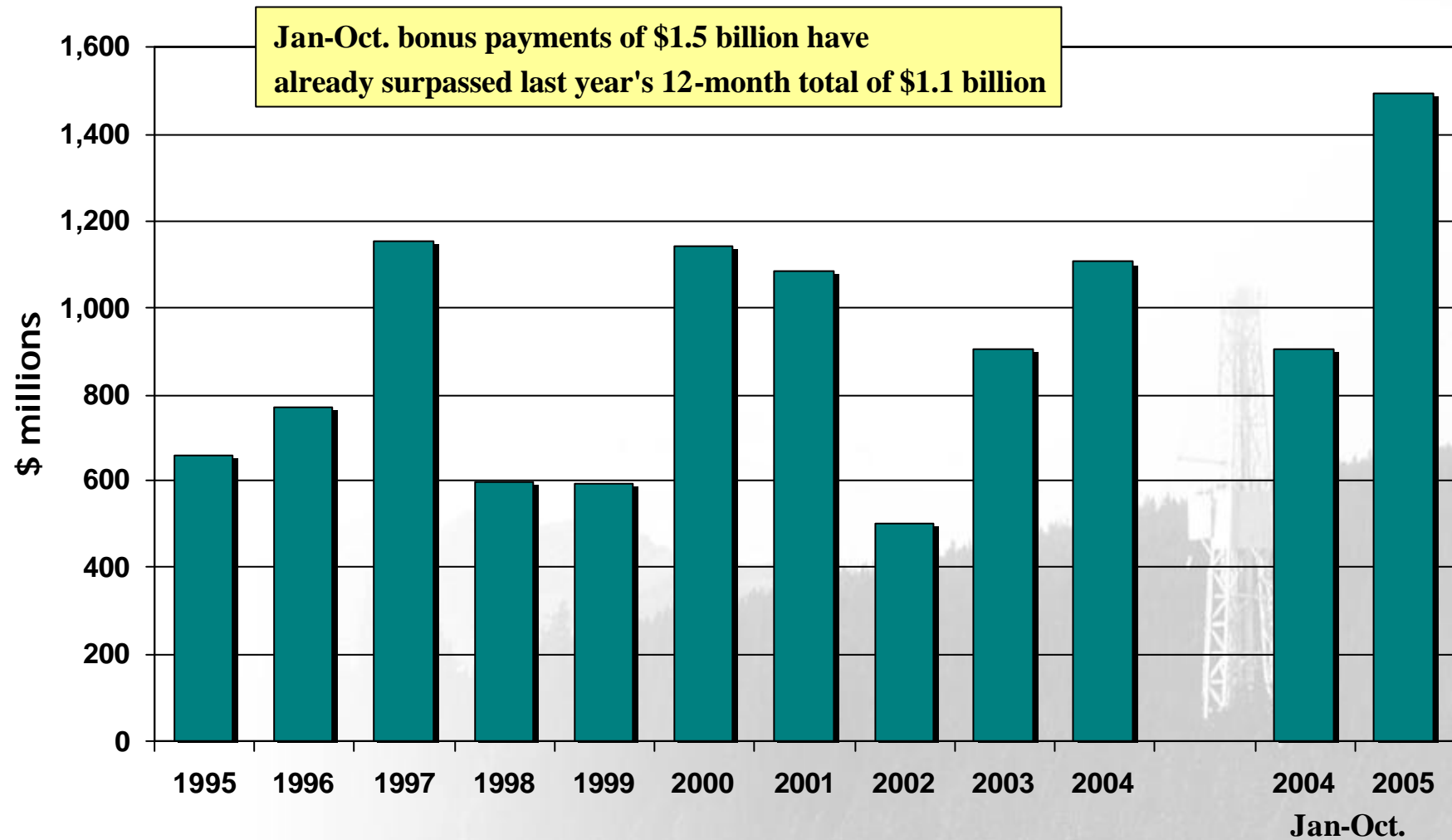
Oil Sands Royalty Increases with Higher Prices



\$ Millions



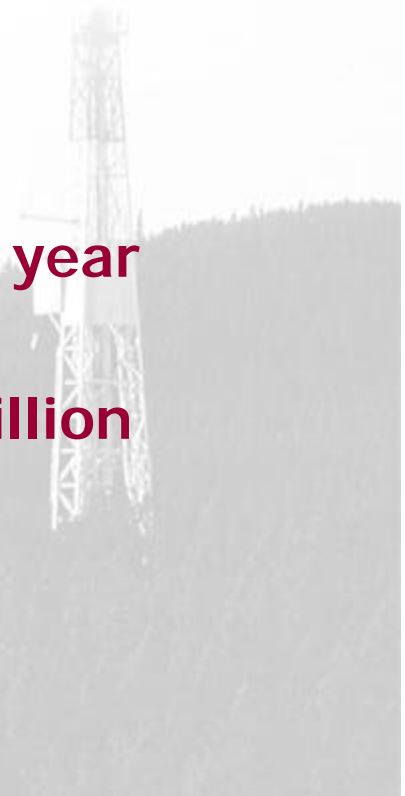
Alberta Mineral Rights Sales



Oil and Gas Activity in Alberta – 2005



- Land bonuses at \$1.5 billion - already surpassed all of last year (\$1.1 billion)
- Well licences up by 5% over last year
- New wells – the highest September on record
- Rig utilization rate (61%) highest since 1997
- Average rig fleet size highest on record
- \$8.5 billion capital spending on oil sands this year alone – same predicted next year
- Spending in conventional oil and gas – \$21 billion
- Lowest unemployment rate in Canada – 3%



1995 - 2005: A decade of growth in Alberta



1995

2005

8,780 drilled wells



19,365 drilled wells

\$3.4 billion: Alberta's oil and gas revenue



\$13.2 billion: Alberta's oil and gas revenue forecast (05/06)

\$657 million land sales



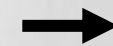
\$1.5 billion land sales (so far)

428,000 barrels/day – oil sands



1 million barrels/day – oil sands

12.1 bcf/day – natural gas



13.1 bcf/day – natural gas

Zero coalbed methane wells

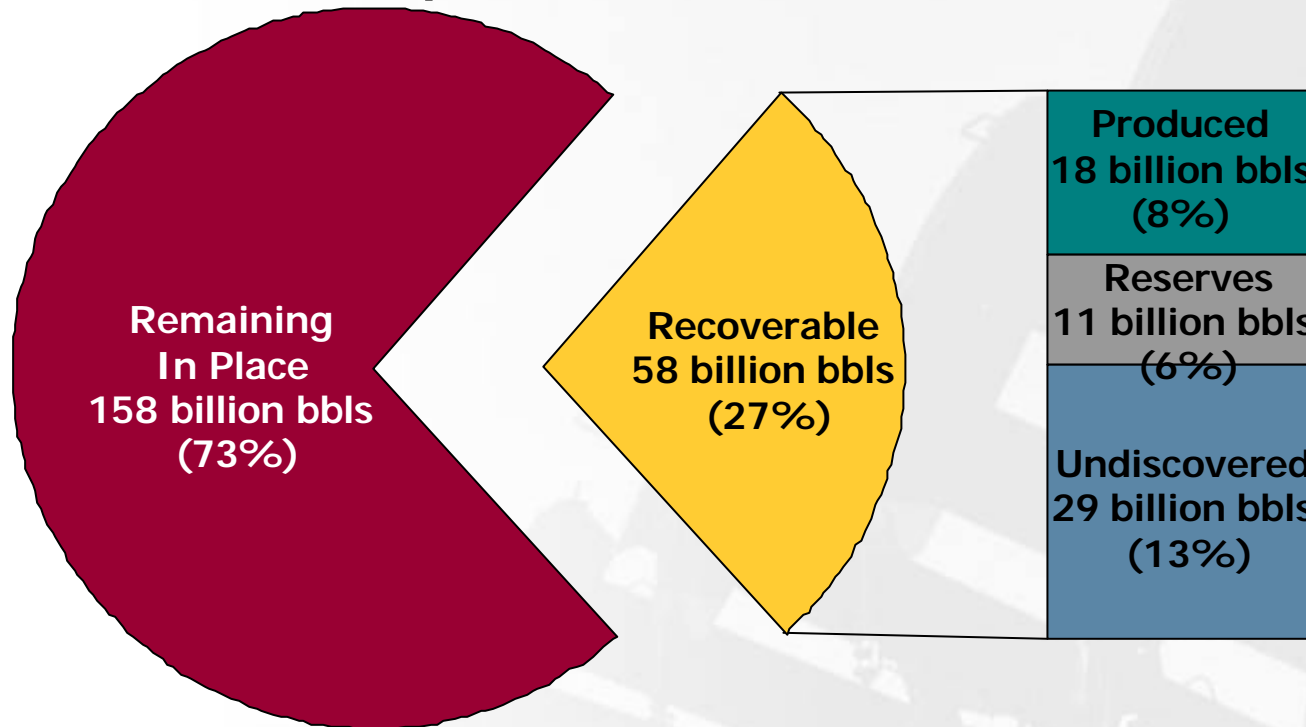


2,950 coalbed methane wells drilled (over 5,000 producing wells)

Opportunity for Recovery Technology



With current technology and economics, only 27% of Canada's total conventional oil in place (216 billion barrels) is recoverable



An improvement in recovery rate of 1% results in additional production of 1,000,000 b/d for seven years @ constant production rate

Oil Sands Projects in Three Deposits



- Oil sands production now exceeds one million barrels per day
- \$35 billion built from 1996-2004
- Close to \$45 billion in new oil sands projects expected in 2005-2010



Athabasca (Mining)

Syncrude	Suncor
Canadian Natural	Albian
ExxonMobil	SynEnCo
PetroCanada/UTS	

Athabasca (In-situ)

Deer Creek/Enerplus	Opti/Nexen
PetroCanada	Devon
Japan Can. Oil Sands	EnCana
ConocoPhillips	Husky
Canadian Natural	Suncor

Cold Lake (In-situ)

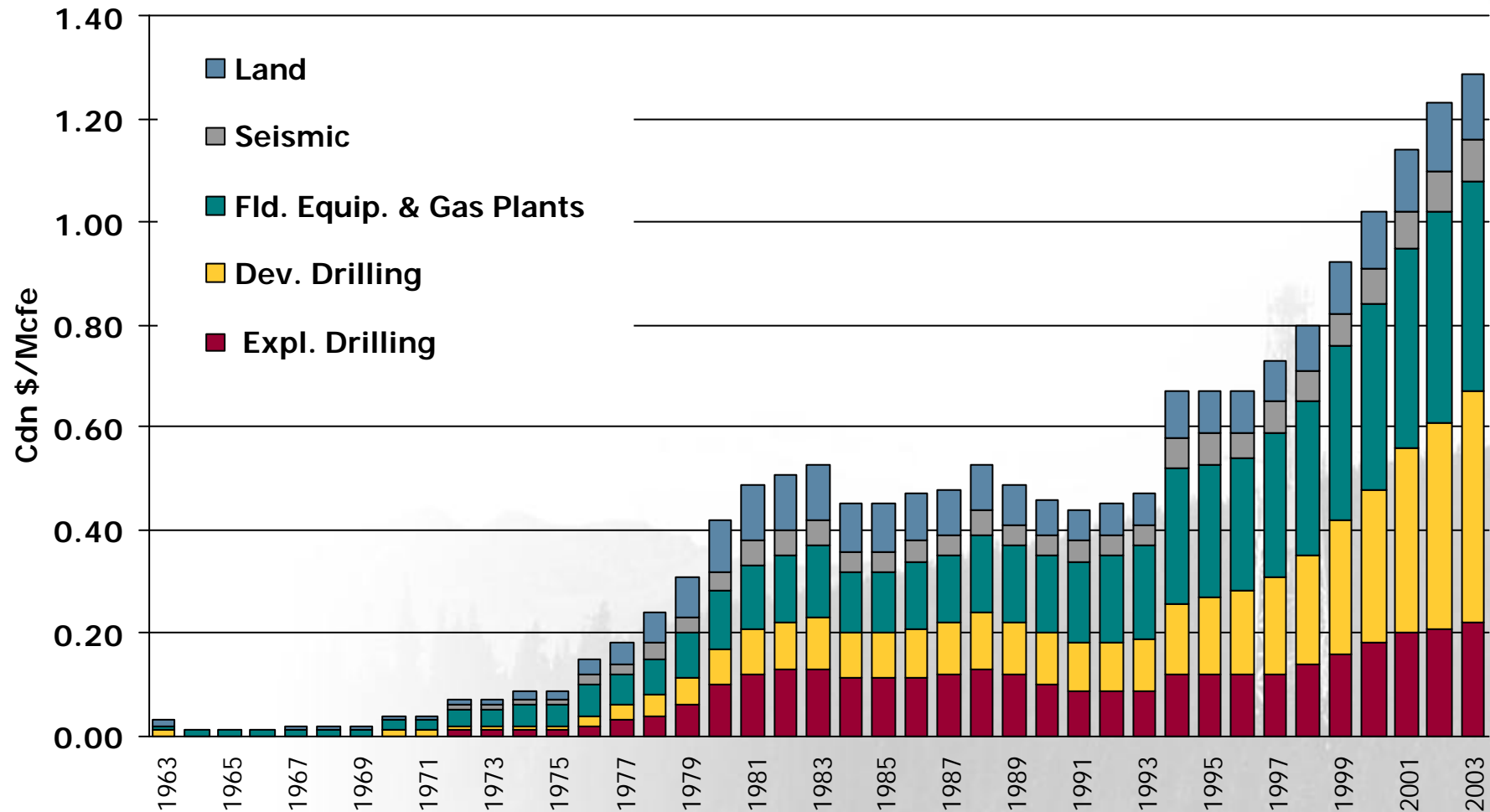
Imperial Oil	Devon
EnCana	Murphy
Canadian Natural	Bonavista
Husky	BlackRock
Baytex	

Peace River (In-situ)

Shell	BlackRock
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Note: Does not include all projects

Challenges – Finding and Development Costs Natural Gas in the WCSB – CDN \$/mcf



Source:

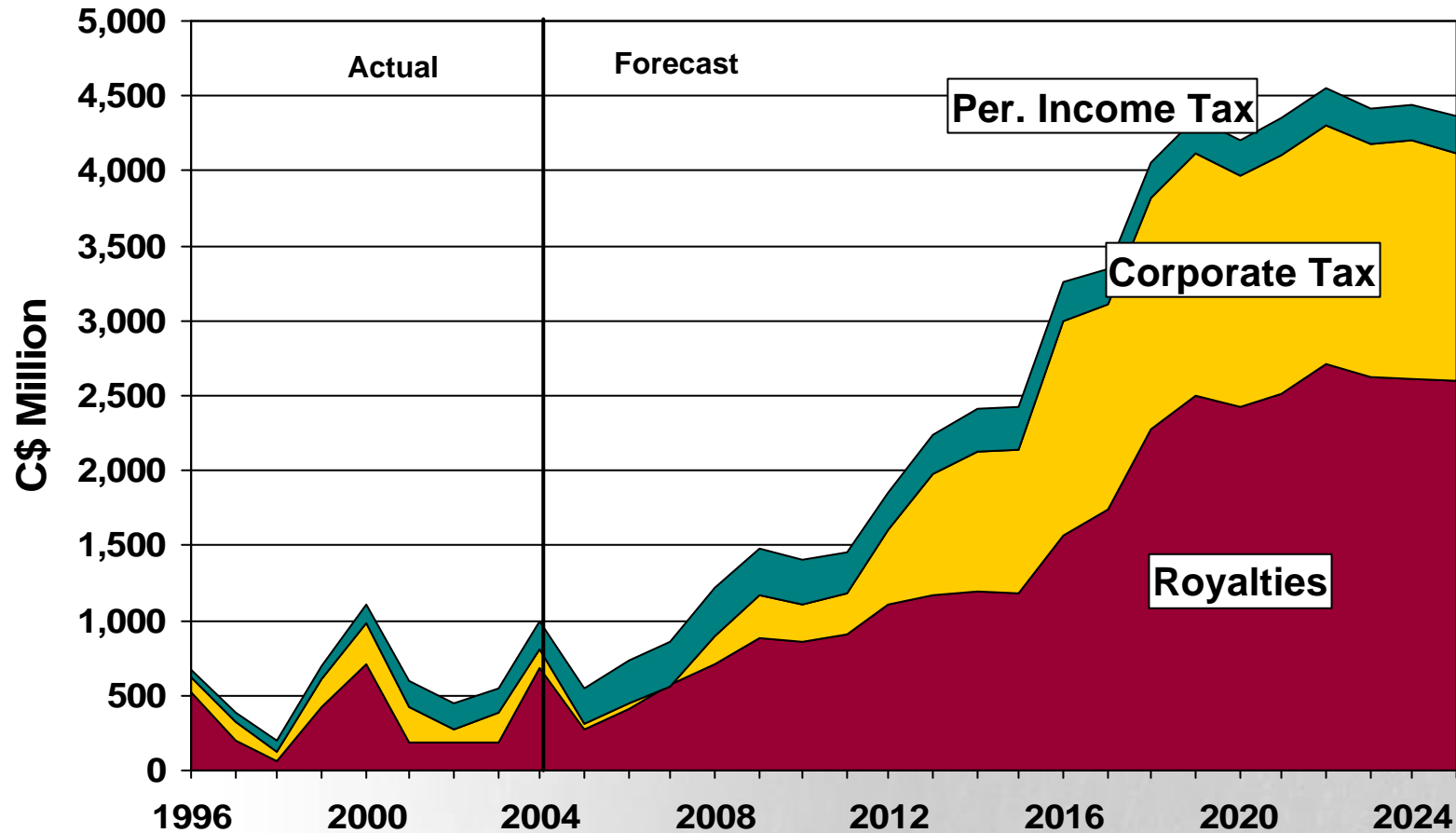
CAPP 10 year rolling average

Note: Includes natural gas liquids converted at 1 bbl: 6 Mcfe

Government of Alberta Oil Sands Revenue Forecast – WTI US\$30 Case

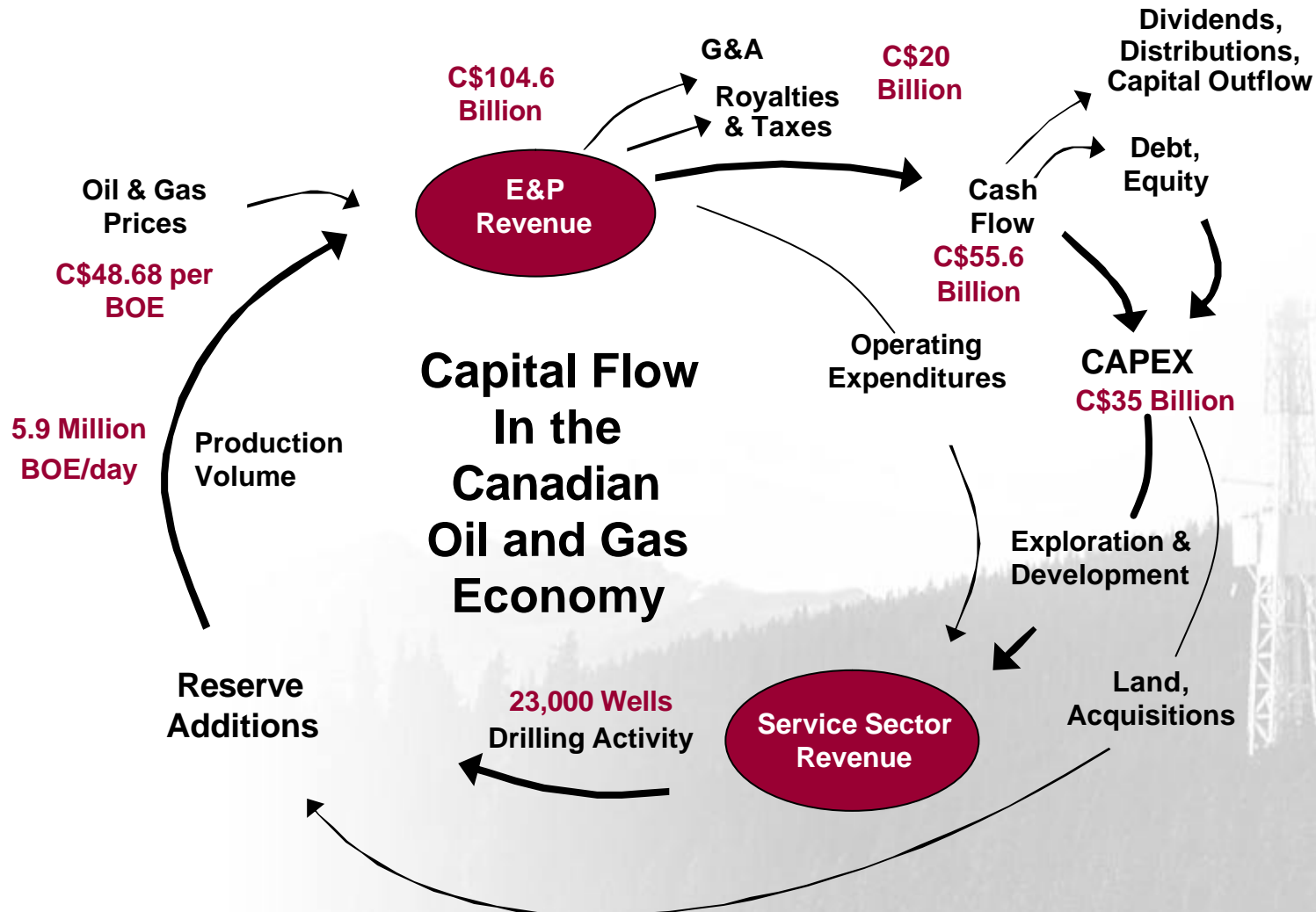


Alberta Revenue Over 2004-25 is \$58 billion



Source: Regional Issues Working Group, Nichols Applied Management

Sizing up the Energy Economy for 2005



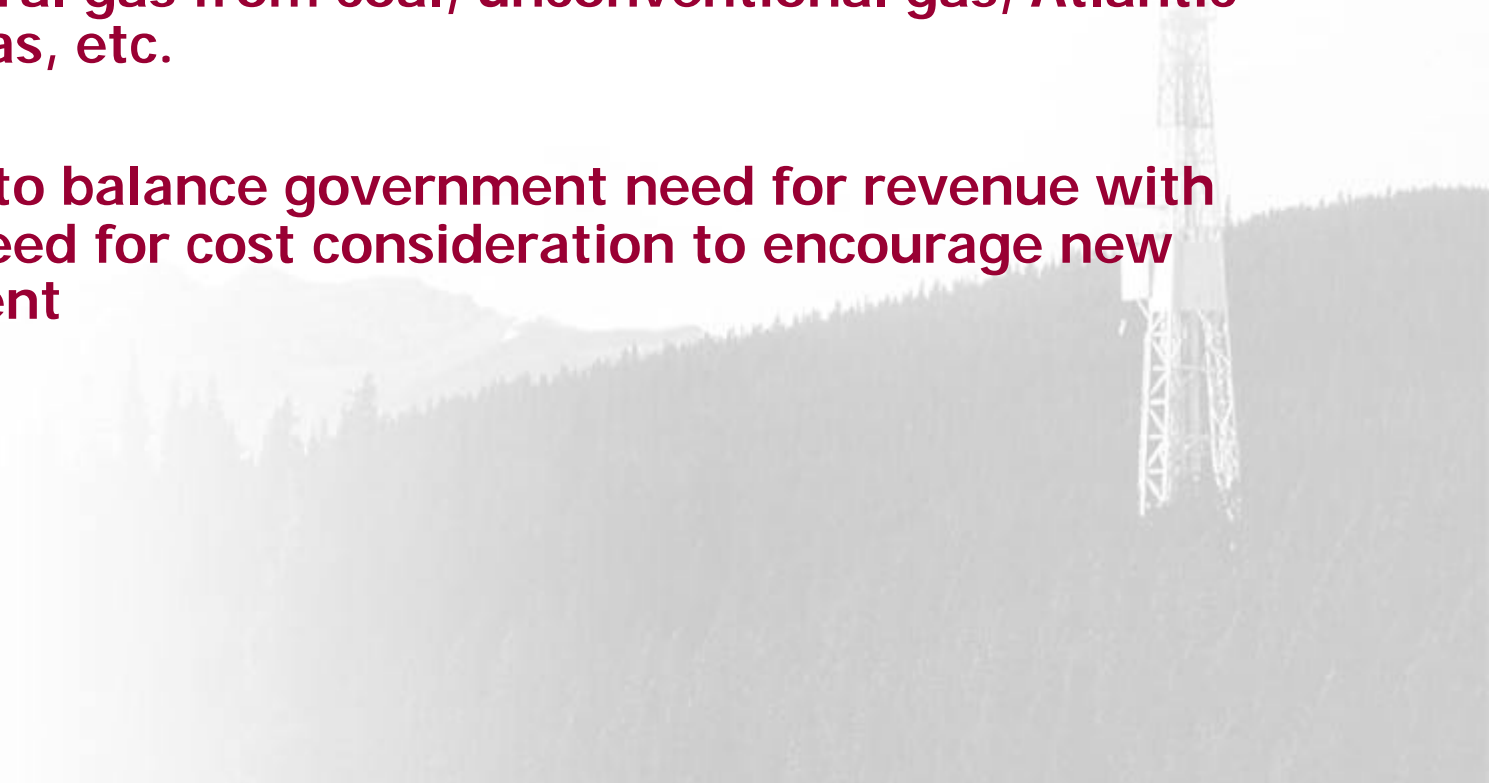
Source: ARC and CAPP

Fiscal Policy Challenges

Royalties



- **Governments periodically reassess effectiveness of royalty regimes (given developments in basin maturity, F&D costs, technology, productivity, etc.)**
- **New regimes developed to encourage new resource potential – e.g. natural gas from coal, unconventional gas, Atlantic offshore gas, etc.**
- **Challenge to balance government need for revenue with industry need for cost consideration to encourage new development**



Fiscal Policy Challenges

Taxes



- **Income tax**
 - CIT - Federal and provincial
 - Surtax
 - Royalty deductibility
 - CCA rates
 - Interest deductibility
- **Capital tax**
 - LCT phase-out
- **Sales tax**
 - None in AB, but would need a 23% PST if no O&G revenues
 - BC exemption for Machinery & Equipment
 - SK PST increased in 2004
- **Property tax**
- **Other (fuel tax, etc.)**

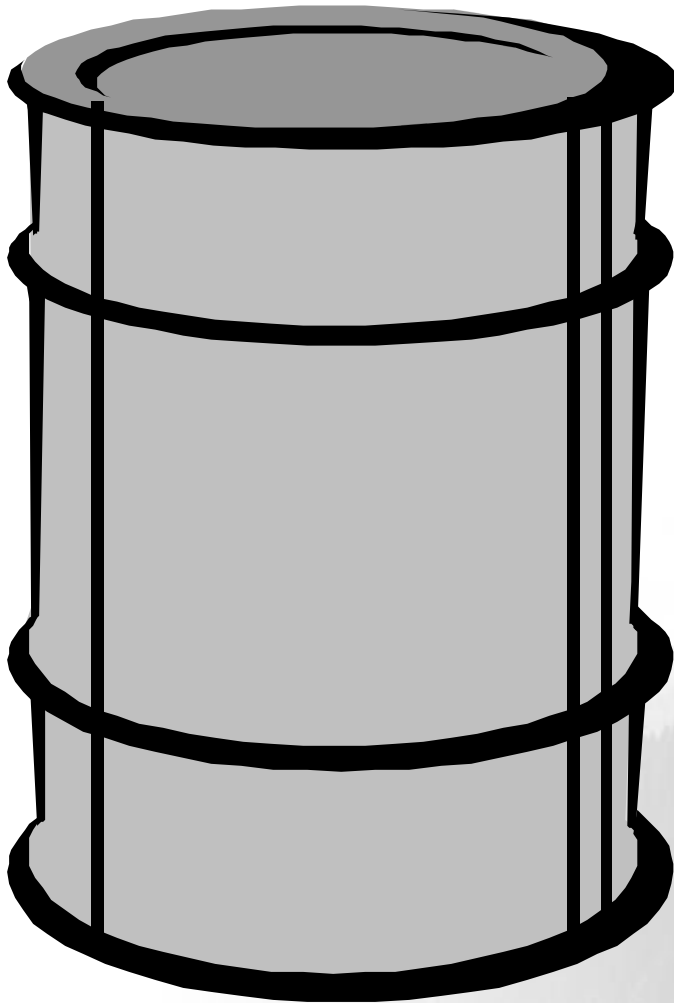


Fiscal Policy Challenges

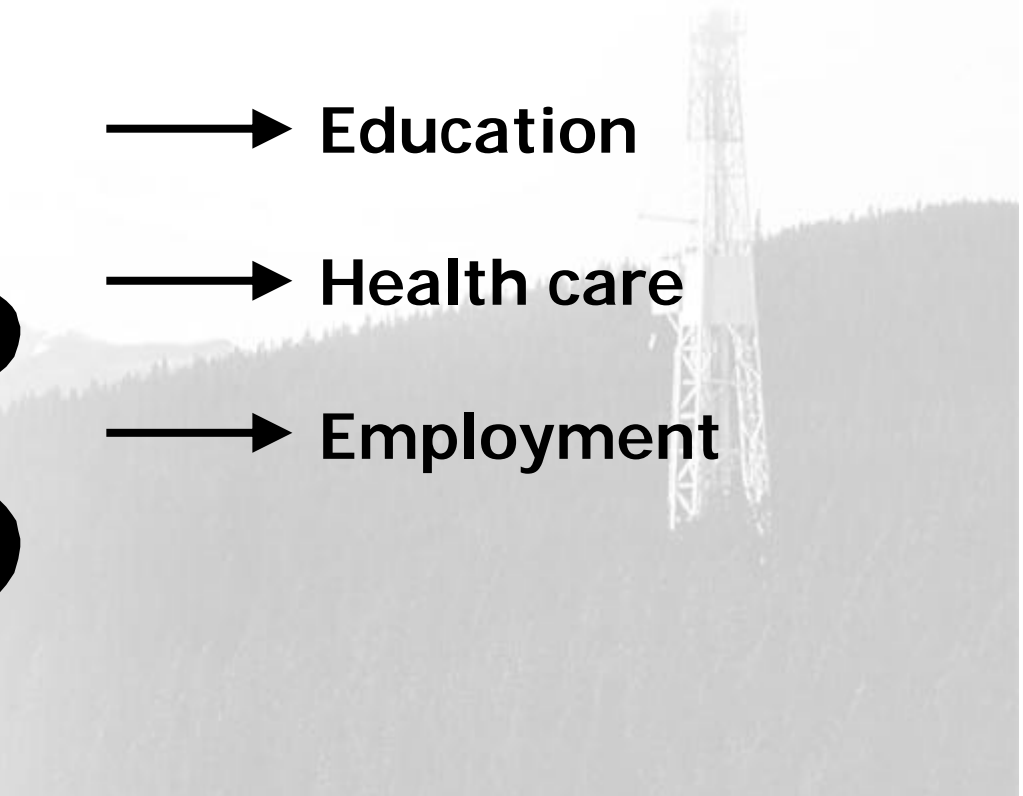


- **Total Fiscal Take**
 - Royalties + Taxes
- **Competitiveness**
 - International
 - Between provinces
- **Jurisdiction Priorities**
 - Royalties determined by Energy departments
 - Tax policy set by Finance departments
 - Property tax policy – Municipal affairs
 - Different departments have different priorities (e.g. tax competitiveness across sectors, revenue generation objectives, municipal-provincial funding splits, etc.)
- **CAPP Role**
 - Focus discussion on industry importance, competitiveness considerations, total government take, overall provincial or federal objectives

Benefits out of a barrel of oil



- Research
- Infrastructure
- Education
- Health care
- Employment



The background is a blue-tinted photograph of an oil field. In the upper left, two men in work clothes are talking. In the lower left, a large Caterpillar haul truck is visible with the number 797 on its side and 502 on its front. On the right, there is a tall, complex metal structure, likely part of an oil well or processing plant.

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