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Retaining a Fair Share of Oil Sands Revenue: Options for Albertans

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Royalty Reform Solutions

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The Pembina Institute's Vision for Oil Sands

The Case for Reforming Oil Sands Royalties

Recommendations to the Review Panel

Questions

The Pembina Institute's Vision for Oil Sands

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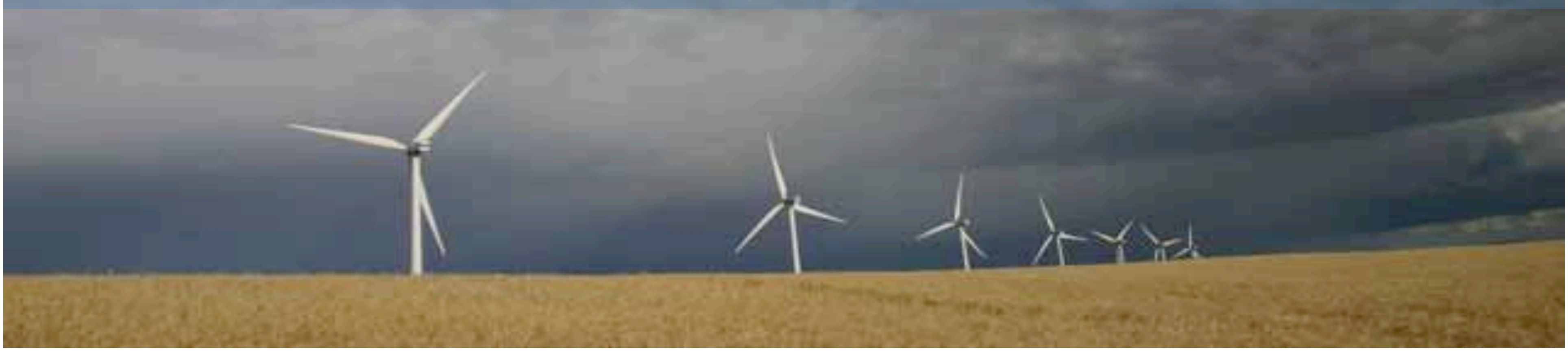
We envision an Alberta in which the pace, scale and terms of oil sands development

- **protect regional ecosystems and the global climate;**
- **optimize financial benefit to the resource owners;**
- **link to long-term strategies for Alberta's transition to a carbon-constrained future.**



Albertans own the oil sands resource

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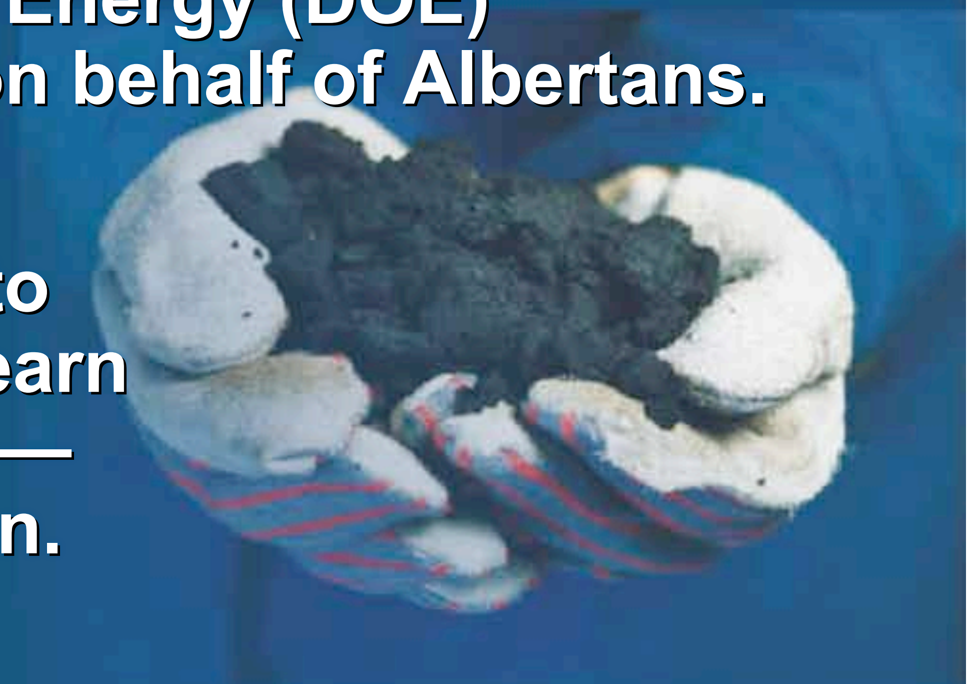
Alberta’s Department of Energy (DOE) manages the oil sands on behalf of Albertans.

DOE allows companies to develop resources and earn a share of the proceeds — effectively, a commission.



It should be a win-win: companies earn a fair return and the government captures the balance for Albertans, the resource owners.

DOE hands out excessive commissions

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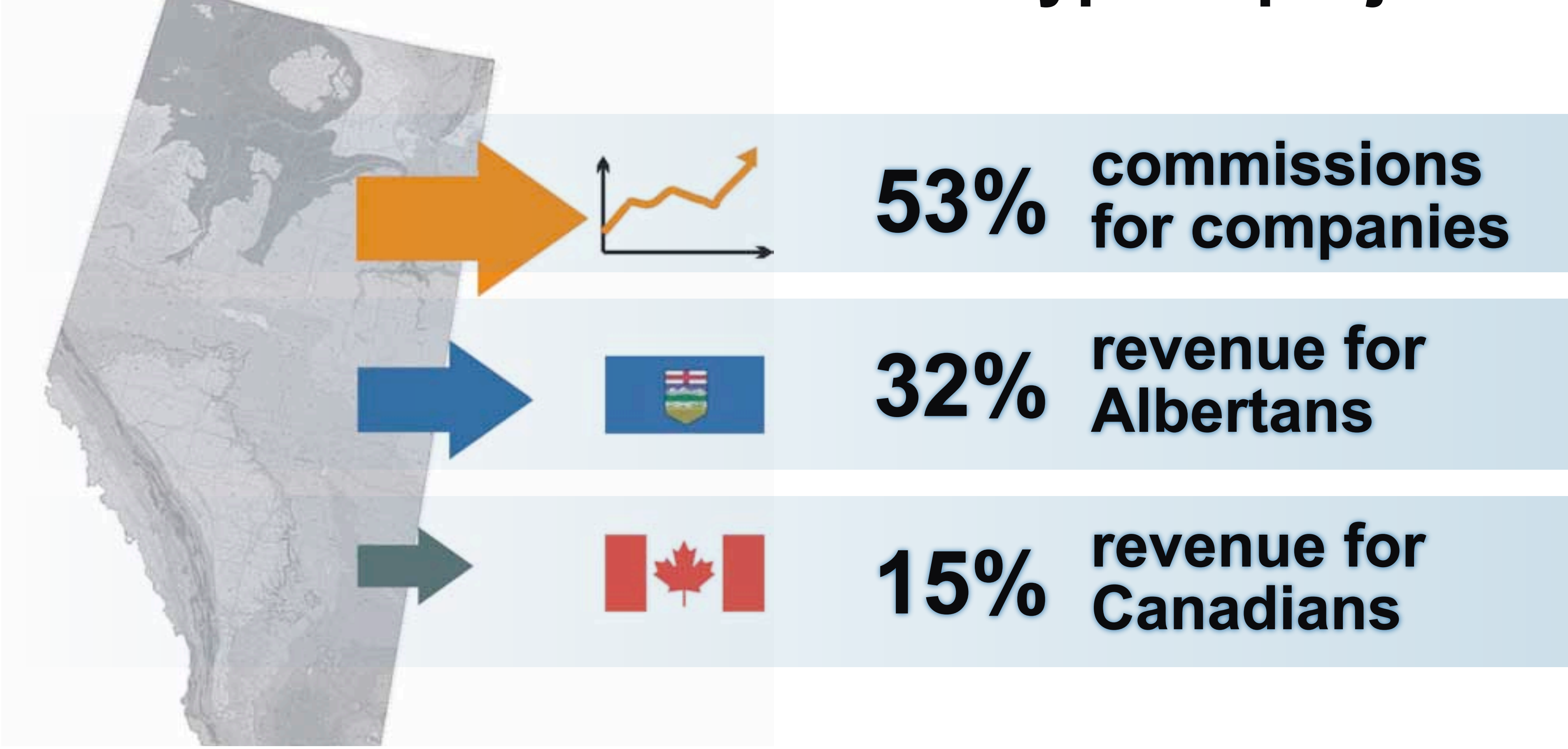
Currently, Albertans pay over fifty percent commissions on a typical project:



Why would Albertans allow such high commissions?

In 1995, the *National Taskforce on Oil Sands Strategies* recommended **special fiscal terms** to **"catalyze accelerated development"** of a **"fledgling industry".**

The end goals?

- increase capital investment
- reach 1 million barrels/day by 2020

The old regime no longer makes sense

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Mission accomplished — and then some.
Over the last decade, from 1997 to 2006:

- **Capital investments have increased by 400%.**
- **Production has increased by 130%.**

And the 1 million barrels per day target?

- **Achieved 16 years ahead of schedule, in 2004.**
- **Today's 2020 "target" is 3-4 million barrels per day.**

There's no need to just grin and bear it…

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Albertans can retain a greater share of revenues

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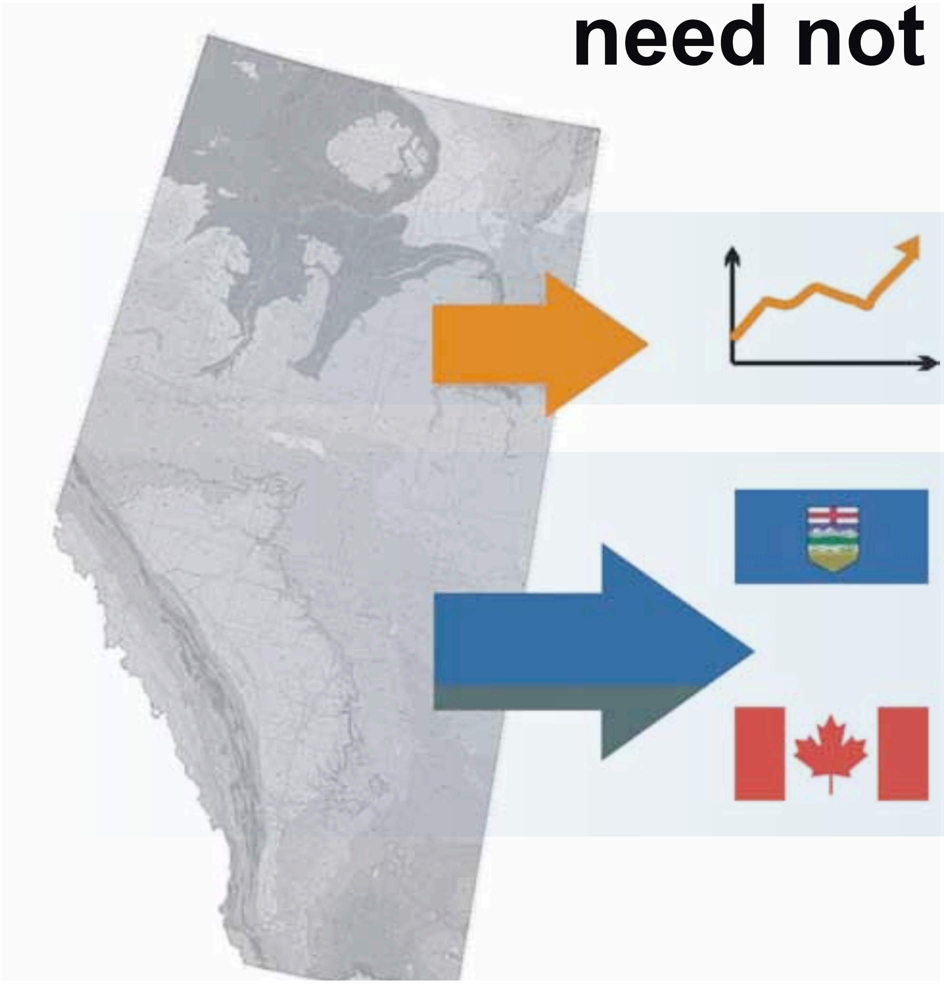
“Net cash flow” models show commissions need not exceed thirty percent:



30% commissions for companies

70% revenue for citizens, including 60% for Albertans

A focus on "post-payout" royalties

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Today's regime applies relatively low royalties over a project's entire lifecycle.

Pre-payout:

1% of gross revenue

Post-payout:

25% of profits

"Payout" is the point at which companies have recovered costs and a basic return on investment.

The Pembina Institute studied three reform options

1. Net 55%	▶ **55%** post-payout royalty
2. Tiered	▶ **30%** post-payout royalty; plus a ▶ **60%** royalty when profits exceed a further threshold
3. Polluter Pays	▶ **40%** post-payout royalty; plus a ▶ **$40/t** levy on carbon emissions

In every case, projects remain attractive to investors

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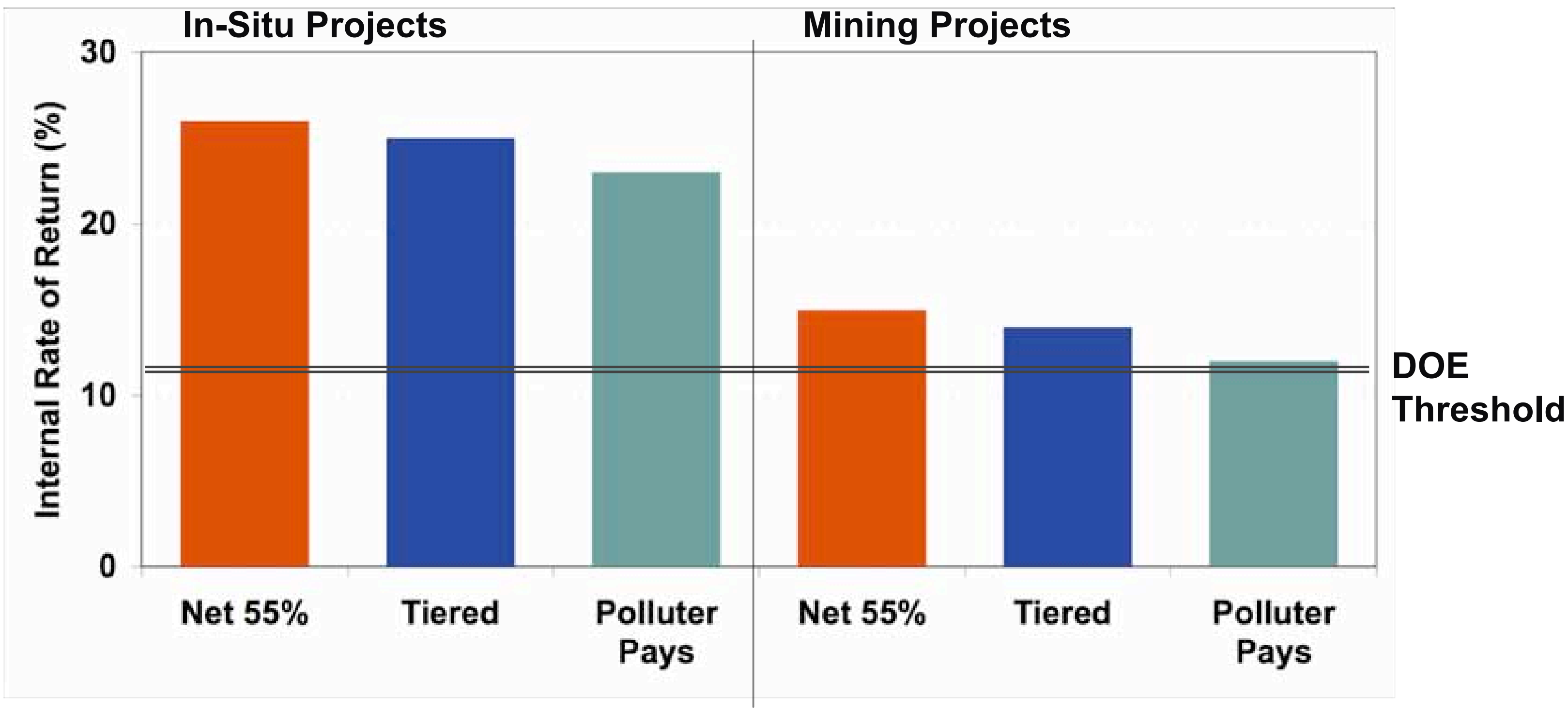
- **All three reform options would yield investor rates of return higher than 12% — the value that DOE identifies as a threshold for project viability.**



In every case, Albertans retain higher revenues

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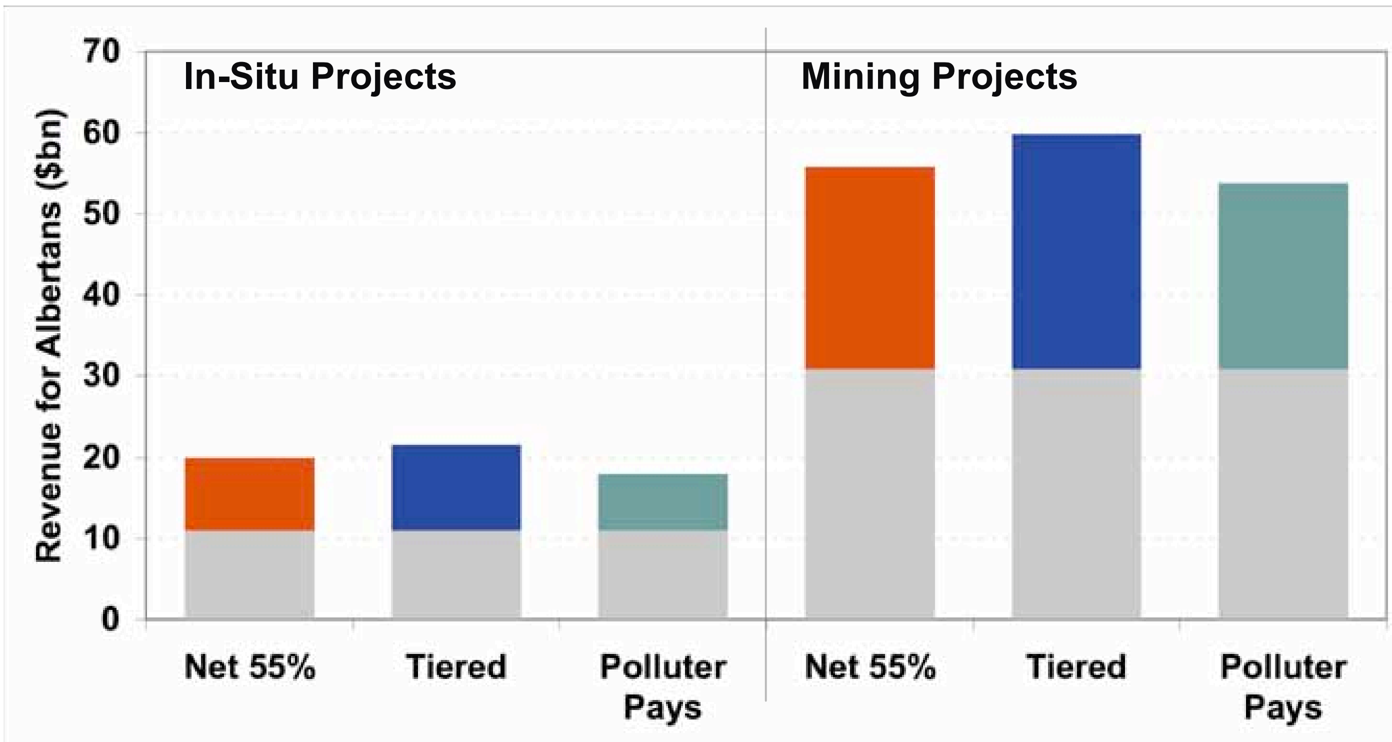
- **With every project, Albertans would realize $7 billion to $29 billion of additional value from the development of their oil sands resources.**



With fair returns, Albertans could invest in the future

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Reforms should set aside 50% of oil sands royalties in a long-term fund for:

- diversifying Alberta's economy
- investing in renewables and energy efficiency
- real savings for future generations.

At 50% per year, a Canada West Foundation study suggests Albertans could save:

- $55 billion by 2015.

The government has a duty to make it happen

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90% of Albertans expect their government to show leadership in maximizing oil sands resource revenues for citizens.

88% of Albertans want to see oil sands royalties invested in renewable energy and energy efficiency.

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70% of oil sands value retained for citizens

30% or less as fair commissions to developers

50% of royalty revenue set aside in a long-term investment fund

This is our chance to get it right.