



# Thinking Like An OWNER



PRIMER

"OUR FAIR SHARE" PEMBINA'S RESOURCE ROYALTY PRIMER

EASY AS 1-2-3

## You can help Premier Stelmach make the right royalties decision

*The Premier's own panel has recommended increasing energy royalties; the energy industry is pressuring him not to, costing Alberta \$2 billion a year. Help the Premier make the right decision. It's as easy as 1-2-3: 1) Get informed. 2) Think like an owner. 3) Let the Premier know where you stand. This primer will show you how.*

Dear Albertan,

We now know Albertans do not receive a fair share from energy development in Alberta.

To see the proof, you need to read *Our Fair Share: Report of the Alberta Royalty Review Panel* (available at [www.albertaroyaltyreview.ca](http://www.albertaroyaltyreview.ca)).

Premier Ed Stelmach's panel of six experts reviewed the province's royalty system; and reported in *Our Fair Share: Report of the Alberta Royalty Review Panel*, released two weeks ago, that Albertans do not receive their fair share from energy developments. The Alberta Auditor General's Report, issued this week, reinforced this conclusion.

**You can make a difference by getting informed and telling**

**Premier Stelmach and your MLA that you want Alberta's government to stand up for Albertans' interests by implementing the Our Fair Share recommendations. Do this now, before the government announces changes in mid-October.**

**Here's how you can help:**

**1. Get informed.** Read the attached letter that Bill Hunter, the Royalty Review Panel's chair, wrote to Finance Minister Lyle Oberg and to all Albertans. In simple language, it explains why royalty reform is urgently needed to ensure fair share for Albertans, the true owners of this province's oil, gas and oil sands resources.

**2. Read the report.** Read the royalty report (at [www.albertaroyaltyreview.ca](http://www.albertaroyaltyreview.ca)), or Pembina's primer (attached).

**Letter for Albertans, the owners of the resource, from Pembina Institute.**

*It's all in straightforward, easy-to-understand language.*

**3. Have your say.** Let Premier Stelmach know what you think. Send a letter to the Premier, Finance Minister Lyle Oberg and your MLA this week.

**4. Spread the word.** Encourage others to read the report and Bill Hunter's letter; and pass on this package. By spreading the word and letting your Premier and MLA know how you feel, you will be doing your part in ensuring Albertans get a fair return on their resources.

Sincerely,

**Marlo Raynolds**  
Executive Director  
Pembina Institute



## OUR FAIR SHARE – Chairman's Letter

### Our Fair Share

### Chairman's Letter

September 18, 2007

Honourable Dr. Lyle Oberg  
Minister of Finance  
Government of the Province of Alberta  
#408 Legislature Building  
10800 - 97 Avenue  
Edmonton, AB  
Canada T5K 2B6

Dear Minister,

The Royalty Review Panel ("Panel") that was created to review whether Albertans are receiving a fair share from energy development through royalties, taxes and fees has completed its work. We retained international-calibre expert advice, reviewed previously done work, reached out to all Alberta stakeholders and citizens, vigorously modelled many scenarios and debated what we learned. Given the time constraints relative to the enormity of our mandate, I am proud to report that we, as a Panel, have come together to recommend a mitigating fiscal program that the government can undertake immediately.

We say "mitigating" because our review revealed that Albertans do not receive their fair share from energy development and they have not, in fact, been receiving their fair share for quite some time. Royalty rates and formulas have not kept pace with changes in the resource base, world energy markets and conditions in other energy-rich jurisdictions. Albertans own the resources. The onus is on government to re-balance the royalty and tax system to ensure a fair share is collected both currently and as circumstances change. This must be done within an equitable, flexible and competent administrative framework that maintains Alberta's competitive edge for energy investment while allowing for all the subjective and objective advantages, including political stability, publicly-funded infrastructure, proximity to markets, and the massive size and certainty of our resource, to name a few.

The Panel's integrated recommendation will achieve the required balance and Alberta's rightful place in international competitiveness based on current conditions. Albertans must have confidence in those chosen to manage their energy resources for maximum yield across several areas: investments, jobs, taxes, royalties and the value-added sector. To secure this confidence, it is essential to provide an enabling and measurable environment in which to create and assess a fair balance between investment by the private sector—the oft-cited "activity" metric—and revenue generation for the owners, or "What's in it for us?"

There is an absence of accountability from the government to the owners of the resource. Even with substantial effort, Albertans cannot determine whether their interests are being well served and whether or not the royalty system is performing as intended. By recommending an accountability package in the strongest possible terms, the Panel intends that both government and industry will be forced to gather and produce data so that statistics and actionable information can be reported to the owners. We envision disclosure and analysis that is at least as comprehensive, or better, than would be reported to the owners of any major enterprise handling billions of dollars on behalf of its stakeholders every single quarter, let alone every single year.

Some simple but very basic concepts were helpful to us and will be useful to both government and future reviewers of Alberta's fiscal regime in the energy sector. For example, when a government designs a tax system, it must justify every dollar or fraction of a dollar it takes away from wage earners and business, because that money belongs to the people who earned it. Alberta's natural resources belong to Albertans, and this is a different proposition. The design of a royalty and tax system for energy resources therefore must justify every dollar that does not go to the owners. Meanwhile, Alberta must be internationally competitive and developers must be rewarded for their risks and investments. Nonetheless, the fact remains that the resources do not belong to the developers; they belong to the people. This is the Panel's viewpoint and the viewpoint of this report. We believe this viewpoint should also become part of the government and departmental culture with respect to this issue. That this is not the case was demonstrated several times at various points throughout the Panel's analysis.

Over the past 60 years, strategic decisions were made in order to exploit the good fortune that we have as an energy province and those decisions shaped Alberta into the oasis of opportunity it is today. The royalty and tax regime recommended in this report, "Our Fair Share, Report of the Alberta Royalty Review Panel", represent crucial interim steps toward a new Alberta – one energized by a compelling new understanding of what can be achieved financially and by visionary actions we take now on behalf of our grandchildren and yet-to-be born great-grandchildren.

We proudly and humbly submit this report with gratitude for the opportunity to serve our Province and, in this highly important and strategic arena, I believe this Panel has also served its country.

Regards,

(original signed by)  
William M. Hunter  
Chair  
Alberta Royalty Review Panel

On behalf of the Panel

#### Panel Members:

Evan Chrapko  
Judith Dwarik  
Ken McKenzie  
André Plourde  
Sam Spanglet

## THINKING LIKE AN OWNER

# "Our Fair Share" Pembina's Resource Royalty Primer

*The government appointed Royalty Review Panel recommended changes to Alberta's energy royalty regimes. Here are some details on how the report came to be and some of the findings.*

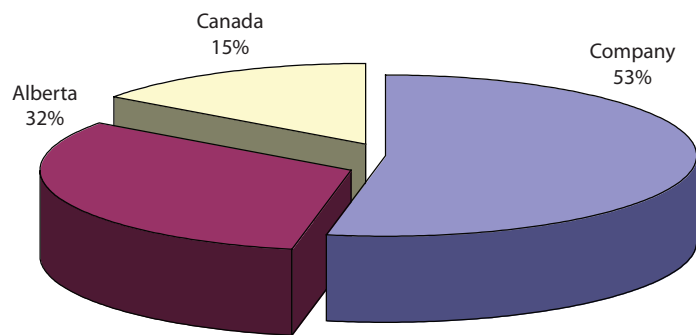


Figure 1:  
Distribution of the  
total net revenue of  
an oil sands project  
under the current  
royalty regime.

## Who Owns the Resource?

Albertans are the owners of the oil sands, oil and gas resources in the province. The provincial government manages these resources on behalf of the owners.

## The Manager's Role

As manager, the government allows companies to undertake oil sands, oil and gas developments. Companies incur costs to develop the resources and obtain revenue from their sale. The government is responsible for obtaining a fair share of that revenue on behalf of the resource owners – the people of Alberta. It is the government's duty as manager to maximize the value that Albertans receive from the development of their resource.

## Royalty Reform Recommended

On September 18, the final report of the Royalty Review Panel was made public. After about seven months of research, analysis and input, the Panel concluded that Albertans "...do not receive their fair share from energy developments and they have not, in fact, been receiving their fair share for quite some time."

According to the Panel "The royalty rates and formulas have not kept pace with changes in the resource base and world energy markets." The Panel went on to say that the onus is now on the Alberta government to re-balance the royalty and tax system so that a fair share is collected. To that end, the Panel made a number of recommendations designed to ensure Albertans retain a greater share of revenues from the development of their resources while maintaining competitiveness with world energy investment opportunities.

	Current Sharing		Recommended Sharing	
	Albertans' Share	Developers' Share	Albertans' Share	Developers' Share
<b>Oil Sands</b>	47%	53%	64%	36%
<b>Conventional Oil</b>	44%	56%	49%	51%
<b>Natural Gas</b>	58%	42%	63%	37%

## Impact of the Recommendations

If all the Panel's recommendations are implemented, Albertans' royalty revenues would increase 20%, approximately \$2 billion annually, as the share of revenue received by Albertans increases.

## Pembina Institute's Work on Royalties

The Pembina Institute has been working on this issue for a number of years resulting in our "Thinking Like an Owner" report series detailing the urgent need to review and reform Alberta's oil sands royalty regime. The series continued with "A Blueprint for Royalty Reform" and finally "Royalty Reform Solutions". The "Royalty Reform Solutions" report presented results

of a detailed modelling exercise in which we demonstrated three alternative ways to reform Alberta's oil sands royalty regime while maintaining the economic viability of oil sands projects. The Pembina Institute presented the results of this assessment to the Royalty Review Panel in May of this year. All these publications are available at [www.pembina.org](http://www.pembina.org).

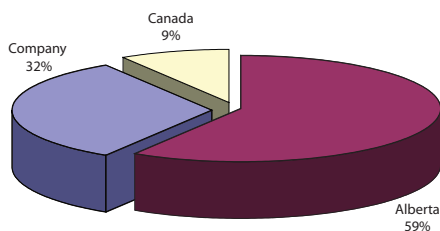
## Support Growing for Royalty Reform

Since the release of the report, support has been mounting in favour of royalty reform. The *Annual Report of the Auditor General 2006-2007, October 1, 2007, stated* "Beginning at least three years ago, the Department [of Energy] demonstrated that Alberta's share had fallen below its target range. The Department estimates that it could collect an addi-

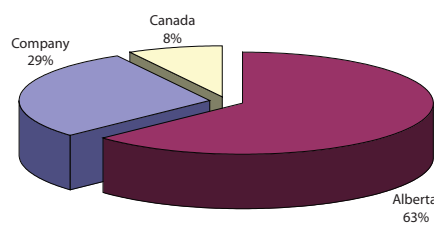
tional \$1 billion or more per year without stifling industry profitability. However, neither this information nor the reasons why changes have not taken place have been made public."

"Department technical review staff assures us that they have held the view that Alberta has not been collecting its appropriate share since 2000."

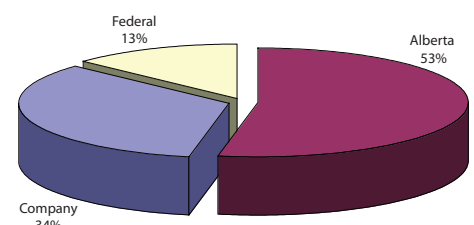
Energy consultant Pedro Van Meurs, in *Comparative Analysis of Fiscal Terms for Alberta Oil Sands and International Heavy and Conventional Oils, May 17, 2007, (commissioned by Alberta Energy) said*, "The low or very low government share [from oil sands] may be reasonable under conditions of low prices and high costs. However, it seems that there is considerable justification for establishing a higher share under conditions of high prices and low costs."



▲ Figure 2: Distribution of total net revenue from an oil sands project with 55% royalty on net revenue.



▲ Figure 3: Distribution of total net revenue from an oil sands project with tiered royalty.



▲ Figure 4: Distribution of total net revenue from an oil sands project with polluter pays reform.

Composite photo of oil sands mining and photo voltaic installation. ►

PHOTOS: DAVID DODGE



▲ Syncrude oil sands mine and wind farm in southern Alberta.

PHOTOS: DAVID DODGE, THE PEMBINA INSTITUTE

# For More Information

## **Royalty Review Panel's Report**

Read the Royalty Review Panel report which is posted on the Panel's website:

<http://www.albertaroyaltyreview.ca/>

and on the Alberta Finance Departments website:

<http://www.finance.gov.ab.ca/what-snew/index.html#royalty>

## **Auditor General's Report**

Link to the most recent Auditor General Report:

[http://www.oag.ab.ca/files/oag/2006-2007\\_Annual\\_Report\\_Vol\\_1.pdf](http://www.oag.ab.ca/files/oag/2006-2007_Annual_Report_Vol_1.pdf)

## **Pembina Reports**

Visit [www.pembina.org](http://www.pembina.org) and [www.oilsandswatch.org](http://www.oilsandswatch.org)

Here are links directly to the Pembina Institute's reports on royalties:

Presentation to the Royalty Reform Panel (2007)  
<http://www.pembina.org/pub/1469>

Royalty Reform Solutions Fact Sheet (2007)  
<http://www.pembina.org/pub/1460>

Royalty Reform Solutions Report (2007)  
<http://www.pembina.org/pub/1457>

Models for Oil Sands Royalty Reform (2007)  
<http://www.pembina.org/pub/1461>

## **Premier Contact Information**

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T5K 2B6  
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## **Finance Minister Contact Information**

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Alberta Finance  
Room 426, Terrace Building  
9515 - 107 Street  
Edmonton, Alberta, T5K 2C3  
FAX: (780) 427-1147  
[strathmore.brooks@assembly.ab.ca](mailto:strathmore.brooks@assembly.ab.ca)

## **MLA Contact Information**

MLA contact information is located at: [http://www.assembly.ab.ca/net/index.aspx?p=mla\\_home](http://www.assembly.ab.ca/net/index.aspx?p=mla_home)



## Let Premier Stelmach or your MLA know where you stand on royalties

Re: Government of Alberta Response to Royalty Review Panel's Recommendations

Dear Mr. Premier (and/or) MLA \_\_\_\_\_:

*Our Fair Share, the report of Alberta's Royalty Review Panel, clearly concludes we Albertans do not receive our fair share from energy development and we have not, in fact, been receiving our fair share for quite some time. The report states that Albertans currently collect less revenue than other comparable regions and recommends reforms that should be implemented in Alberta. The reforms are essential to moving toward a fair share of revenues for Albertans.*

*I strongly urge you implement the Panel's full package of recommendations as quickly as possible to obtain the \$2 billion more in revenue each year that we Albertans, the owners of the resource, should be receiving.*

*Now is the time for your government to take a stand on behalf of Albertans. Your decision to fully implement the recommendations will go a long way towards correcting the imbalance in the current royalty regimes and ensure we receive our rightful share of royalty revenue.*

*Sincerely,*