MEDIA BACKGROUNDER

Premier Stelmach Rejects Expert Advice, Shortchanging Albertans by Billions

- In The New Royalty Framework, released on October 25, 2007, Premier Stelmach's government rejects all three recommendations made by Alberta's Royalty Review Panel concerning oil sands royalty and tax rates. (These are listed as recommendations nos. 14, 15 and 16 in Appendix One.)

- The government claims that, "Albertans will receive a greater share from oil sands development," as a result of its own royalty proposals. However, The New Royalty Framework does not include any quantitative justification for this claim. [1]

- The Pembina Institute used detailed "net cash flow" models to calculate additional revenues that Albertans would earn from typical oil sands projects under two different fiscal scenarios: the Expert Panel's recommendations, and proposals in The New Royalty Framework. Calculations were made over a range of different oil prices, held constant over the project lifetime.
- Tables 1a and 1b compare the two scenarios — the Expert Panel recommendations and *The New Royalty Framework* — with the existing royalty regime. For example, Table 1a shows that at oil prices of US $60 per barrel and given *The New Royalty Framework*, Albertans would only earn 2% in additional revenues over the lifetime of an in situ project.

Table 1a. Percentage increase in Albertans' revenues as a result of royalty changes at different oil prices – Typical in situ project

	$40/bbl	$60/bbl	$80/bbl	$100/bbl	$120/bbl
Stelmach Government's *New Royalty Framework*	0%	2%	9%	16%	23%
Expert Review Panel Recommendations	17%	22%	26%	29%	33%

[1] The document provides only one estimate of additional oil sands royalty revenues expected as a result of the proposed changes: $470 million in 2010 (page 13). This amount is in fact lower than the additional revenues forecast as a result of the Royalty Review Panel's recommendations: $666 million in 2010 (page 17 of the *Our Fair Share* report).

Table 1b. Percentage increase in Albertans' revenues as a result of royalty changes at different oil prices – Typical mining project

	$40/bbl	$60/bbl	$80/bbl	$100/bbl	$120/bbl
Stelmach Government's *New Royalty Framework*	0%	2%	8%	15%	22%
Expert Review Panel Recommendation	16%	22%	24%	29%	32%

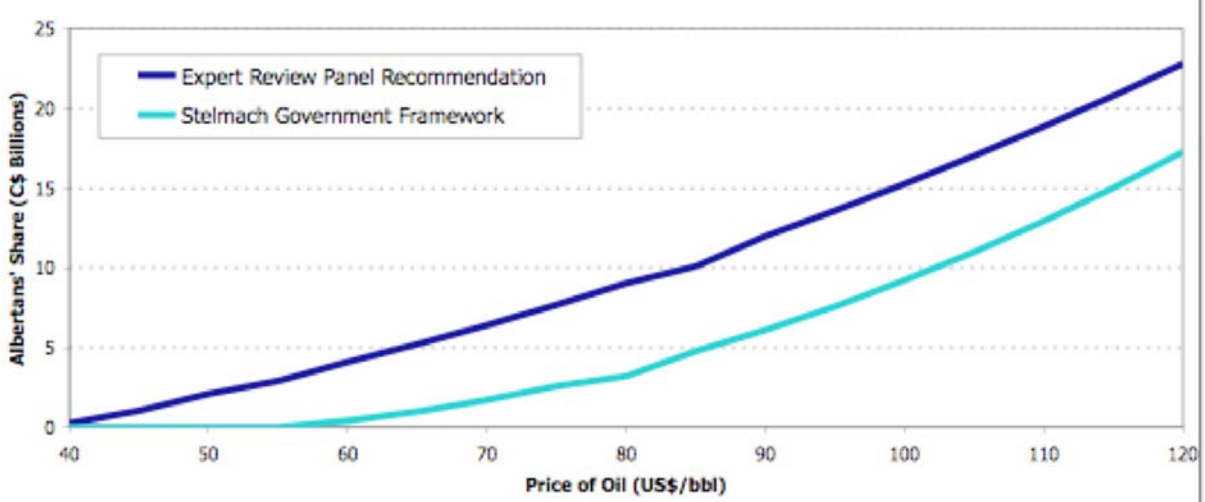
- These modelling results indicate that contrary to claims in *The New Royalty Framework*, the Review Panel's expert recommendations will always generate a greater amount of additional revenue for Albertans. At prices of oil below $100 per barrel, the difference is dramatic.

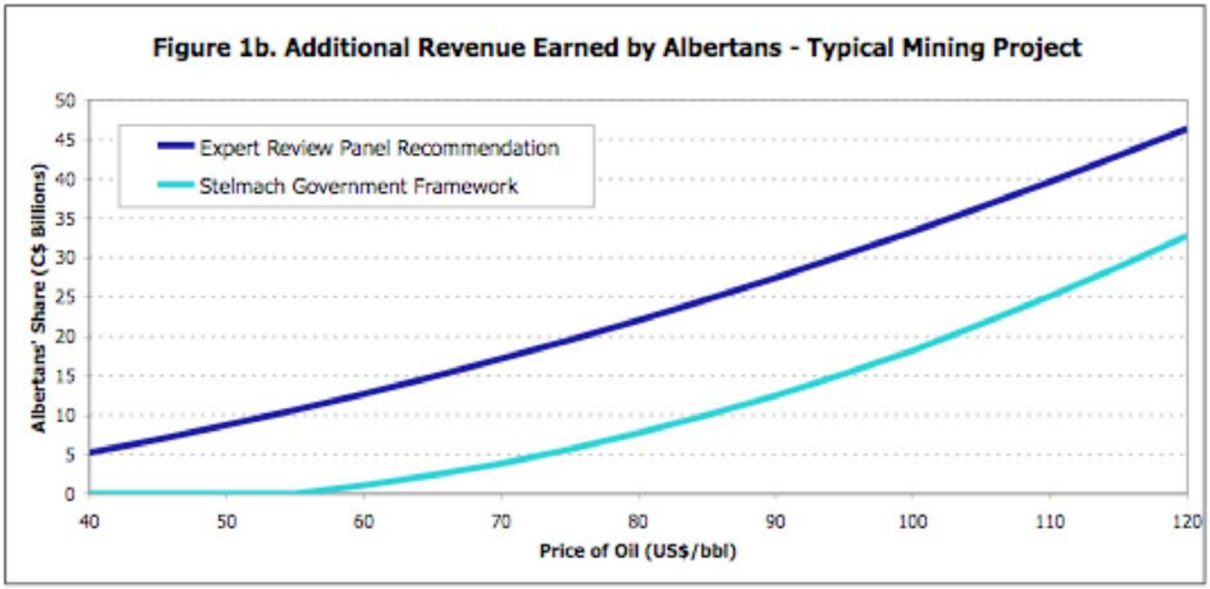
- In fact, oil prices need to maintain about $110 per barrel before *The New Royalty Framework* can achieve the cited benchmark increase of 20% in revenues over the life of a single oil sands project. This same 20% benchmark is guaranteed above oil prices of about $55 per barrel under the Expert Panel's recommendations.

- Figures 1a and 1b present these same data graphically, comparing the additional revenues that Albertans would earn as a result of the Expert Panel's recommendations and those that would be generated by *The New Royalty Framework*.

- For example, at oil prices of $60 per barrel, the Premier's proposal only results in an extra $400 million over the life of an in situ project and $1 billion over the life of a mining project. The equivalent figures for the Expert Panel's recommendations are $5.2 billion and $12.6 billion respectively.

Figure 1a. Additional Revenue Earned by Albertans - Typical In Situ Project





NB: following standard conventions, oil prices are quoted in USD, while revenues are reported in CAD throughout the backgrounder and media release.