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

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Royalty Reform Solutions

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

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

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

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>53%</td>
<td>Commissions for companies</td>
</tr>
<tr>
<td>32%</td>
<td>Revenue for Albertans</td>
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<tr>
<td>15%</td>
<td>Revenue for Canadians</td>
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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

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...
Albertans can retain a greater share of revenues

“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

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

- 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

- 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

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

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.
Royalty Reform Solutions

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.