Government of Alberta

News release

The Way Forward

Alberta

March 11, 2010

Alberta delivers on oil and gas competitiveness

Increased production, jobs and spin-off benefits expected as a result of regulatory and fiscal changes for oil and gas sector

Calgary... To advance Alberta's competitiveness in the upstream oil and gas sector, the Alberta government will modify conventional oil and natural gas royalty rates; promote more innovation and use of new technologies; and reduce unnecessary red tape while improving coordination of regulatory processes.

"Alberta is recognized around the world as a leader in technical innovation and development of energy resources," said Premier Ed Stelmach. "These changes support the Provincial Energy Strategy. They will help us use innovation to unlock our energy resources, create opportunities and jobs in communities large and small across our province and strengthen Alberta's economic recovery."

In recent years, new drilling technologies have unlocked sizable new reserves in other North American jurisdictions that are now competing for investment. "We can't pretend that oil and gas investment levels haven't eroded or that we don't have a responsibility to current and future generations of Albertans to address that," said Energy Minister Ron Liepert. "Being competitive has a positive impact far beyond the energy sector. It contributes greatly to our communities, our standard of living, and our prosperity as a province and as individuals."

Currently almost one in seven Albertans are directly or indirectly employed by the energy industry. Changes to improve Alberta's competitiveness are expected to create 8,000 jobs in 2011-12 and then 13,000 more jobs annually across the economy. Over the next 25 years conventional oil and gas development in Alberta has the potential to add $2.5 trillion in new economic activity.

"We need to do more to explain to Albertans the ways in which our energy sector drives our economy. Albertans need to have factual and balanced information about how energy development happens in Alberta and just how critical it is to meeting our economic goals," said Liepert.

The changes being made by government are based on a Competitiveness Review that included an extensive technical analysis of Alberta's competitive position. This resulted in a number of recommendations for improvement in specific areas.

Fiscal
The key recommendations for royalty adjustments will become effective on a permanent basis

for the January 2011 production month.

- The current incentive program rate of five per cent on new natural gas and conventional oil wells will become a permanent feature of the royalty system, with the current time and volume limits.
- The maximum royalty rate for conventional oil will be reduced at higher price levels from 50 per cent to 40 per cent to provide better risk-reward balance to investors.
- Recognizing the fundamental changes to the North American supply/demand balance and increased competition from other jurisdictions, the maximum royalty rate for conventional and unconventional natural gas will be reduced at higher price levels from 50 to 36 per cent.
- All royalty curves will be finalized and announced by May 31, 2010.
- The transitional royalty framework for oil and gas introduced in November 2008 will continue until its original announced expiration on December 31, 2013. Effective January 1, 2011, no new wells will be allowed to select the transitional royalty rates. Wells that have already selected the transitional royalty rates will have the option to stay with those rates or switch to the new rates effective January 1, 2011.

Innovation
Innovation will drive our future competitiveness. The government will therefore:

- explore additional ways to recognize and account for the higher costs of new and advanced technologies needed to develop mature fields; and
- ensure the development of technologies for enhanced oil and gas recovery remain a priority in the government's research strategies with industry and academic partners.

Regulatory
The government also accepted recommendations to create a more efficient and effective regulatory system that is based on outcomes.

- Regulatory bodies will work to better coordinate compliance inspections by October 2010.
- The Energy Resources Conservation Board (ERCB) will develop new processes around well spacing and confidentiality of data.
- Parliamentary Assistant to the Minister of Energy, Drayton Valley-Calmar MLA Diana McQueen, will chair a cross-ministry task force to report within 90 days on:
    - implementation of near-term regulatory enhancements;
    - changes to support deployment of innovative, new technologies; and
    - the process for comprehensive review of the regulatory system, with specific milestones and measurable objectives.

"We need to take a high-level view of the whole regulatory system and keep what's working, fix what isn't and get rid of what we no longer need," said McQueen. "We also want to assure Albertans that our regulatory system will continue to protect the health and safety of Albertans and our natural environment."

The Competitiveness Review assessed ways that Alberta's competitive position and share of energy investment have shifted, and identified contributing factors. It also considered how Alberta could improve its ability to attract conventional oil and natural gas investment, in light of market changes and marketplace realities. The unconventional oil sector—oil sands—was not included in the study given the province's unique position in this area and continued success in attracting significant investment in new and expanding oil sands projects.

The Alberta government's response document, *Energizing Investment,* and the complete Project Committee Technical Report and appendix are available at www.energy.alberta.ca

The Provincial Energy Strategy and the Competitiveness Review are key components of the Alberta government's plan for a strong economic recovery. *The Way Forward* will bring Alberta back into a surplus position in three years by trimming government spending; using cash reserves to protect key programs; continuing to invest in public infrastructure; and ensuring that our province's industries are competitive and continue to attract investment to provide jobs and prosperity.

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Backgrounder: Adjustments to improve Alberta's competitive position

Media inquiries may be directed to:

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March 11, 2010

Adjustments to improve Alberta's competitive position

The Competitiveness Review

In response to changes in the marketplace, Alberta Energy led a team that examined Alberta's investment competitiveness, with a focus on upstream oil and natural gas development. A key element of this review was an extensive technical analysis of Alberta's competitive position relative to other domestic and international jurisdictions. Measures of investment competitiveness included, but were not limited to:

- rate of return
- net present value
- profitability ratio
- price/cost ratio

The Competitiveness Review included considerable technical analysis and input from members of the investment community and large and small producing companies through their associations, including the Canadian Association of Petroleum Producers (CAPP) and the Small Explorers and Producers Association of Canada. Recommendations in the report include:

- a modification of conventional oil and natural gas royalty rates;
- steps to ensure improvements to the effectiveness and efficiency of Alberta's regulatory processes, while protecting the environment;
- greater flexibility and support for the use of newer technologies in upstream development; and
- strengthening the productive partnership between Albertans and the resource industry.

Alberta's competitiveness in oil and gas today

Overall, Alberta continues to provide competitive investment opportunities in the exploration and development of upstream oil and gas. Key advantages include an established industry, a highly skilled workforce, an open market, extensive infrastructure, and abundant oil and gas reserves.

However, Alberta's position is not as strong as it was a decade ago. Domestic, continental and global factors have contributed to a shift of investment away from the province. The U.S., a major customer for Alberta's natural gas, is increasingly becoming an aggressive competitor for natural gas investment, due in large part to technological advances. In recent years, investments in oil and gas in Alberta have waned while they have steadily increased in neighbouring jurisdictions. Currently costs are higher in Alberta, our regulatory system is creating barriers and many of our reservoirs require more costly technology to explore and develop.

Economic benefits of a competitive energy sector

Albertans should realize the full economic benefits of their oil and gas resources.

- Energy developments account for 30 per cent of Alberta's total GDP. This source of income will be more sustainable over the long term and therefore able to support programs and services that matter to Albertans.
- As of January 2009, Alberta's mining oil and gas sector was responsible for

approximately 147,000 direct jobs for Albertans. Almost one in seven Albertans are employed in the energy sector and it is estimated that every job in this sector is supported by two additional jobs in support industries.
- Over the next 25 years, Alberta's oil and gas sector is poised to contribute over $2.5 trillion to Alberta's GDP and to create 13.74 million person-years of employment. (Source: Canadian Energy Research Institute 2009 *Economic Impacts of the Petroleum Industry.*)

The announced changes will enable:

- For every $1 in additional energy investment, an estimated $1.44 GDP increase; and
- 8,000 jobs created in 2011-12 and an estimated 13,000 more jobs annually. Fifty-eight per cent of this job growth would be in the service sector, 24 per cent in construction — and about eight per cent in the oil and gas sector.

Adjustments within the fiscal framework
To ensure Alberta remains competitive with other jurisdictions, graduated royalty rates, or curves, will be adjusted effective the January 2011 production month using current price and production variables. The new royalty curves will be announced by May 31, 2010 to enable investment decisions for the upcoming drilling season. In addition, the following changes are being made.

- The current five per cent front-end rate on natural gas and conventional oil will become a permanent feature of the royalty system.
- The maximum royalty rate for conventional oil will be reduced to 40 per cent, down from the current level of 50 per cent.
- The maximum royalty rate for conventional and unconventional natural gas will be reduced at higher price levels from 50 to 36 per cent. Additional analysis of natural gas programs is underway and will conclude prior to finalizing the royalty curves at the end of May.
- The transitional royalty framework for oil and gas introduced in November 2008 will continue until December 31, 2013 as originally announced. Effective January 1, 2011, no new wells will be allowed to select the transitional royalty rates. Wells that have already selected the transitional royalty rates will be allowed an option to switch to the new rates effective January 1, 2011.
- Alberta's broader fiscal regime, including taxes, will also be monitored. As part of this effort, the government will continue to monitor the fiscal regimes of competing North American jurisdictions to ensure Alberta remains an attractive place to invest and do business.

Changes to the royalty structure do not affect government's commitment to be back in the black in 2012-13.

- In 2010-11 and 2011-12, the impact to the fiscal framework is minimal and positive.
- In 2010-11, a projected slight decline in royalty revenue of $27 million is more than offset by an increase of $55 million in land sales. The net impact on revenues therefore is an increase of
  $28 million.
- In 2011-12, the decline of $16 million in forecast royalty revenue due to the changes is more than offset by an increase of $49 million in royalty revenues generated by increased activity. Additionally, there will also be an estimated increase of $76 million in revenue from land sales and $31 million in tax revenue. The net impact on revenues therefore is an increase of $140 million.
- In 2012-13, decreases in royalty revenue resulting from the change will be partially offset by increases in land sale revenue and tax revenue generated by additional activity and employment.
- The net result will be a decrease in revenue in 2012-13 of $363 million. This includes a

decrease of $785 million in forecast royalty revenues, directly attributable to the changes, partially offset by an increase of $131 million in royalty revenues generated by increased activity, $143 million in land sale revenue and $148 million in tax revenue from increased tax revenue.

Improving the regulatory regime
Over the next six months, changes to the regulatory regime for upstream oil and gas development will include:

- a shift to a results-oriented view of regulation, based on achieving better performance outcomes, with less burdensome process, will be accelerated;
- regulatory bodies will work to put coordinated compliance inspections in place by October 2010;
- the Energy Resources Conservation Board (ERCB) will streamline processes for harmonization of well spacing in northwest Alberta development entities, and consider what further changes may be required for unconventional gas development using horizontal wells;
- the ERCB will work with industry to develop provisions for confidentiality of data better suited to unconventional gas development; and
- a government-industry working group, chaired by the Parliamentary Secretary for Energy, will be formed to address regulatory enhancement. The working group will be required to report within
  90 days on near-term enhancements, changes to support the deployment of new technologies and the process for a more comprehensive review with milestones for progress.

Driving innovation

- Improvements to provide greater flexibility for the use of new technologies in upstream development will be identified as part of the review of Alberta’s entire regulatory regime. Considerations will include how to better support pilot projects, and how to better assess the real risks of new technologies and approaches.
- The Alberta government will continue to place a high priority on the development of technologies to support enhanced oil and gas recovery through its successful model of partnership with industry, the research community and post-secondary institutions.
- As part of examining Alberta’s broader investment competitiveness, options will be explored to recognize and account for the higher costs of new and advanced technologies needed to develop mature conventional oil and gas plays and unconventional natural gas.

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