Alberta Federation of Labour

Backgrounder

Unconventional royalty breaks caused last year's deficit: confidential government documents

The document, entitled**, "Energizing Investment Phase 2: Royalty Curves and Adjustments,"** was prepared in advance of the government's announcement of reduced royalty rates for unconventional oil and gas, including coal bed methane, shale gas, horizontal drilling.[1]

The government's announcement was on May 27, 2010. The document is dated May 25, 2010.

The document shows that royalty reductions caused the 2012/2013 budget deficit. It shows that the Stelmach government projected a $505 million surplus in 2012/2013, but the royalty reductions pushed the government into a $142 million deficit.

The document forecasted even larger revenue losses in the 2013/2014 and 2014/2015 budget years. This calls to question Premier Redford's assertions that our present-day deficit was unforeseen and entirely due to the so-called bitumen bubble.

In some cases, oil and gas companies can recoup their capital costs in under a year with the royalty breaks, according to the Stelmach government's calculations.

The document notes that Alberta's declining share of the investment in oil and gas pre-dates Stelmach's 2008 royalty increases. "This may be an indication of the "non fiscal" factors (e.g. regulatory) that are pointing to a loss of competitiveness." In other words, royalty breaks were unwarranted.

[1] Government of Alberta, Alberta stimulates new energy investment, new technologies," May 27, 2010, http://alberta.ca/acn/201005/28441DB838B27-0336-BB5C-D5EDFEDE158ED1F6.html

Excerpts:

1) Impacts on revenue from unconventional royalty breaks

Revenue Impacts from 2010/11 Budget

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$ Millions	2010/11	2011/12	2012/13	2013/14	2014/15
Revised Gas Royalty Curve	0	(1)	(53)	(110)	(278)
Revised Oil Royalty Curve	22	41	(18)	(71)	(142)
Deep Gas Change	0	(228)	(233)	(245)	(272)
Coal Bed Methane	0	(6)	(18)	(14)	(84)
Horizontal Gas	0	(24)	(21)	(22)	(25)
Horizontal Oil	0	(25)	(25)	(30)	(33)
Total	22	(243)	(368)	(492)	(834)

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2) Royalty reductions caused last year's budget deficit

Impact of March 11 and May 27 Changes

	2010/11	2011/12	2012/13
Royalty Revenue Impact of March 11 Changes	(27)	(16)	(785)
Royalty Revenue Impact of May 27 Changes	22	(243)	(368)
Forecasted Offsetting Activity			
Impact of Activity Increase		49	131
Impact of Higher Land Sales	55	76	143
Economic Impact	31	148	232
Net Fiscal Impact to Budget	81	14	(647)
Budget 2010 estimated surplus/deficit	(4,748)	(1,135)	505
Adjusted budget surplus/deficit	(4,667)	(1,121)	(142)

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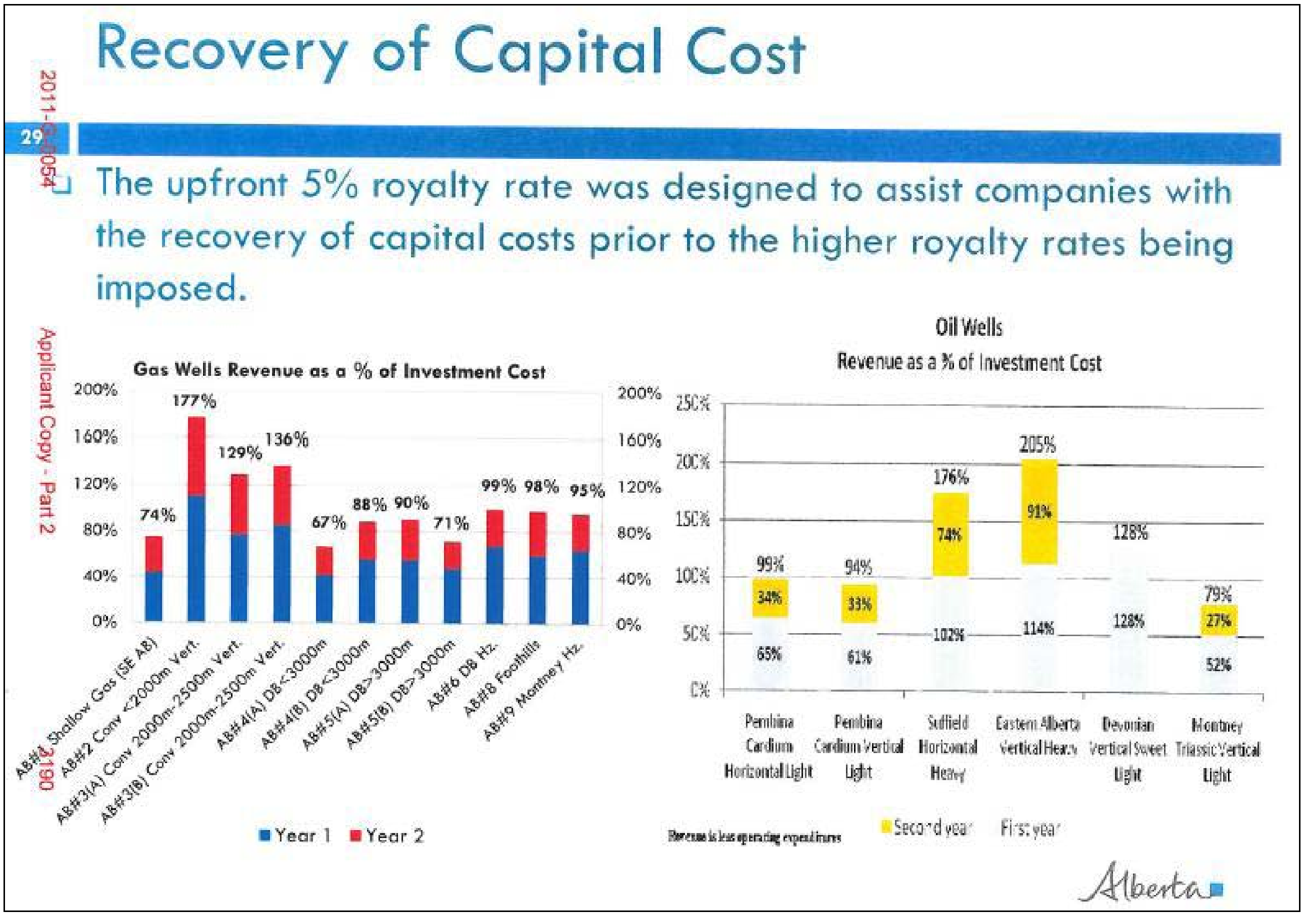
3) Some companies can recoup their capital costs in under a year, according to the Stelmach government's calculations



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