

Royalty Changes in Alberta: Why are we waiting? (to the tune of “O Come All ye Faithful”)

by Nigel Bankes

One of the most damning indictments contained in the Report of the Royalty Review Panel in the fall of last year was the revelation that the current royalty regime for conventional oil and gas loses any sensitivity to increased prices at extraordinarily low levels. The Government itself acknowledged this deficiency in its own proposal for a new Royalty Framework where it states that sensitivity is lost for oil at about \$30 per barrel and for natural gas at about \$3.70/GJ.

What this means is that the government’s percentage royalty take does not increase once oil hits \$30 a barrel even though the same well is obviously much more profitable to the lessee at \$130 a barrel than it was at \$30 a barrel. True, costs will have increased for the lessee, but not to anything like the same degree. Both the royalty review panel and the provincial auditor general recognized that this represented gross mismanagement of a publicly owned resource. In effect, both reviews recognized that the government had been asleep at the wheel and had been allowing private industry to capture a large share of the available economic rents that should have been flowing to the government as the owner of the resource.

But if the current arrangements represented gross government mismanagement when oil was at \$70 a barrel this is even more obviously the case when oil is trading at over \$130 a barrel. The government has promised to change things effective January 1, 2009, but why do we have to wait that long?

Yes, it is necessary to make changes to regulations and in some limited cases even to statutes. And notice must be given and new procedures put in place, but this process never needed to take 14 months. The government could have introduced legislation to effect the necessary changes in the fall of 2007 when the legislature was in session. It failed to do so. But now it’s time to act to protect the public interest. The government should introduce the necessary changes as soon as possible and bring forward the implementation date so as to capture the current windfall of high world prices for the public purse.

See Nigel Bankes’ previous post on the royalty review at http://ablawg.ca/wp-content/uploads/2008/02/nb_royalty_sept_2007.pdf