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Alberta Panel Recommends Higher Oil, Gas Royalties (Update3)

By Ian McKinnon

Sept. 18 (Bloomberg) -- Alberta, the biggest producer of oil and natural gas in Canada, should raise royalty rates to reap additional benefits from rising prices, a government-appointed task force said.

The western Canadian province could gain an additional C$2 billion ($1.97 billion) a year, about a 20 percent increase if the group's recommendations are adopted, according to a government report today. The rules would apply to all projects, with no exception for existing ones.

Royalties on oil-sands projects that are profitable should be raised to 33 percent of net revenue from 25 percent, said the six-person panel, appointed in February by Premier Ed Stelmach.

``Albertans do not receive their fair share of energy development and they have not been receiving their fair share for some time,'' Bill Hunter, panel chairman, said at a news conference.

The panel also proposed a new tax on the production of bitumen, a heavy crude extracted from Alberta's tar-like deposits. The so-called severance tax would start at 1 percent on bitumen selling for C$40 a barrel and rise to a maximum of 9 percent, if prices are at C$120.

The recommendations would boost Alberta's share of oil-sands revenue to 64 percent from 47 percent, the report said. The higher take ``remains competitive internationally,'' Hunter said. The government's share from oil and gas wells would rise 5 percentage points to 49 percent and 63 percent, respectively.

Impact on Projects

Higher royalties and increased construction costs caused by a boom in oil-sands projects due to rising oil prices may cause some companies to cancel some projects, said Greg Stringham, a vice president at the Canadian Association of Petroleum Producers.

``If the report is implemented, it certainly could have a significant impact,'' he said in a telephone interview. ``At first blush, this is far worse than we anticipated.''

The energy industry generates about one-third of Alberta's revenue, according to government statistics. Alberta's economy will expand 4.5 percent this year, almost double the national average of 2.5 percent, Canada's Bank of Nova Scotia forecast earlier this month.

Alberta lowered its oil-sands royalty a decade ago to encourage development of the tar sands, estimated to hold the most crude outside of the Middle East. The panel recommended maintaining a rule that allows companies developing oil-sands projects, including Royal Dutch Shell Plc and EnCana Corp., to pay a 1 percent revenue royalty until they recover their investments.

'Fair' Rate

The 25 percent rate of net revenue after costs are recovered ``is unnecessarily low in view of the significant changes that have occurred in world energy markets and fiscal royalty systems over the past decade,'' Hunter said. The proposed rate is ``fair to both Albertans and the producers,'' he said.

The province's royalty structure should be simplified, and more information needs to be gathered and analyzed regularly to ensure Alberta is receiving an adequate share of the energy production, the panel said.

The government, in a separate statement today, said it will respond to the panel's recommendations by mid-October.

Rising oil prices, which today closed at a record of $81.90 a barrel in New York, are spurring companies including Shell and Suncor Energy Inc. to spend billions to extract oil from Alberta's tar sands.

The oil-soaked sand, located about 750 kilometers (466 miles) north of Calgary, may hold 175 billion barrels of recoverable oil, second after Saudi Arabia's 259 billion barrels, according to the Canadian Association of Petroleum Producers.

Alberta produces about 68 percent of Canada's daily oil output and 77 percent of gas production, according to the association.

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