

Alta giving up billions in oil cash to inaction, incompetence: auditor general

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EDMONTON - Alberta's auditor general suggested Monday that the province has been the woolly-headed chump of the global oilpatch for years by willingly allowing billions of dollars in royalties to slip through its fingers due to political inaction.

"The royalty resources belong to Albertans," Fred Dunn told reporters as he released his annual report.

He said Alberta is among the lowest jurisdictions for royalties and has stood still while others moved ahead to charge more as prices in the industry rose.

"Why is Alberta selling it low? What is the support for Alberta to receive less for a similar commodity than other jurisdictions?" he asked.

"There's good evidence going back to 2004 that the royalty regime was very low. What was needed, really, was just leadership."

In theory, royalties should be charged by the province on a sliding scale that would allow industry to make a fair profit and taxpayers to properly benefit from a resource.

Dunn said that as far back as three years ago, researchers in Alberta's Energy Department stated that the province's share of royalties from its giant petroleum industry had fallen below its target range. They also said the government could easily collect an additional \$1 billion or more per year without stifling industry profitability.

It even got to the point, said Dunn, that a specific request urging a decision moved up the department chain to then-energy minister Greg Melchin.

Dunn said Melchin, now minister in charge of seniors, told his investigators he decided to not go forward because more study was needed.

"It was paralysis by analysis."

Melchin could not immediately be reached for comment Monday.

Dunn also accused the department of fuzzy thinking and a tendency to dodge and mislead. He said his office asked the department for background information on the royalty review after Melchin referred to it in the legislature more than a year ago.

After weeks of delay, followed by a demand letter from Dunn's office, the department replied that in effect it wasn't sure what he was asking for.

"(They asked), 'What do you think it (the royalty review) should look like?'

"That didn't impress me," said Dunn, who added he then realized that if the stewards of Alberta's oil royalties couldn't define a royalty review, his team would have to consult outside experts to get a definition.

Dunn's report noted that department slide presentations on the royalty system were crammed with conflicting, unnecessary detail that delivered a mixed message. They stated, for example, that Alberta is competitive while at the same time saying it needed to go after its fair share of royalties.

The department, he said, doesn't even know what it is going after. Definitions of what the government should be shooting for as its fair royalties share are vague - between 50 and 75 per cent of available economic rent, he noted.

Rent is defined as money remaining after an oil business has recovered its costs and made a competitive profit.

But even that target varies among officials in the industry and its definition has been open to interpretation, said Dunn. Some in the department define it in terms of net operating revenue, others in percentages of economic rent. Still others add in bonus figures and formulas that, in one case, would see the government collect more than 100 per cent of the rent.

"The department should be consistent in describing its economic rent targets," stated Dunn.

For those who wanted to dig deeper, he said, there was only frustration, except for a few legislature tablings and some web documents: "Public reporting of the department's royalty review work is hard to locate."

Opposition Liberal Leader Kevin Taft said the report shines a spotlight on a Progressive Conservative government that, after a generation in power, is suffering from greed and moral rot.

"The people of Alberta should be furious with what the auditor general has uncovered," said Taft, who added that Tory politicians have for years said publicly they were getting value for money on royalties despite, it appears, in-house information to the contrary.

"We're talking here about a billion-dollars-plus every year. That's a major urban hospital every year. That's an end to child poverty. This government is squandering the inheritance of our grandchildren."

Royalties have become the dominant topic in Alberta as the province moves toward an expected spring election.

A recent arm's-length royalty review panel stated that Albertans are being severely shortchanged on royalties and that the province's take should be increased 20 per cent, or \$2 billion a year.

Premier Ed Stelmach has promised to respond to the report later this month, but industry officials are already warning of dire consequences.

Investment bank Tristone Capital warned Monday that boosting royalties, particularly in the natural gas sector, would lead to a "flight of capital."

Energy giant EnCana Corp. (TSX:ECA) said it would slash spending in Alberta by \$1 billion if the royalty rate hike is adopted.

Stelmach's answer could be a watershed moment for a politician who, after taking over from Ralph Klein last year, has been criticized by some as a waffler who won't make a politically courageous decision.

NDP Leader Brian Mason said the auditor general's report will now make it tough for Stelmach to not demand the whole \$2 billion.

"It's important he do that," said Mason.