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Declining sale of oil rights points to future surplus woes

Both average prices, and hectares sold, are sharply down

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It will be interesting to see if Premier Ed Stelmach is as fast to release economist Jack Mintz's review of how the province handles its oil wealth, as he was to publish Bill Hunter's royalty review last fall.

Unlike Hunter, Mintz has not called his report a "take-it-or-leave it" document.

But, when it's released, it's likely to take a good whack at the provincial government. Mintz says it must show more "fiscal discipline," and put aside more of its resource wealth for future consumption. Not the best pre-election reading for the province, one would think.

It's hard to disagree with what Mintz is saying. People have been saying this since, with the final payment on the provincial debt in sight, the government started spending madly. Even the last two finance ministers have shaken their heads as they presented their budgets, and said this couldn't go on.

Not to overstate the case, in 2003, the Alberta government spent \$20 billion; this fiscal year, it's more than \$31 billion. The trouble is, it's all done on the strength of resource royalties. Last year, for every three dollars of spending, one was covered by a dollar made from oil, natural gas, or coal.

Fine while it lasts, but rather a shaky thing in those years when royalties drop off. Last year, for example, Alberta took in \$11.7 billion, which sounds like lots.

Actually, it is lots. But the year before it was \$14.3 billion. Only in Alberta could we shrug off \$3 billion, and still post a surplus.

But, in my view, those happy days are likely to be short-lived. It isn't going to matter much what the government thinks of what Mintz says, because the money isn't going to be there to spend the way it has been spending.

EnCana made big news last year when it announced it had diverted a billion-dollar exploration program out of Alberta.

However, less well-known another pre-quake tremor -- the remarkable drop-off in interest in Alberta's public offerings of Crown rights to drill for oil and gas, and to exploit the oilsands.

If the industry isn't buying the rights to explore, there's going to be less exploration, and less exploitation, and ultimately, less royalties paid.

What the lease-sale numbers show is that during the calendar year 2005, the government was able to attract an average of \$632 a hectare for oil/gas rights, and \$1,219 per hectare for oilsands rights. It was a very good year and, between the two, the government took in \$2.2 billion.

The following year wasn't bad either, with oil/gas raising \$546 a hectare, and surging interest in oilsands pushing the average price to \$1,272. The government raised \$3.4 billion.

Then came 2007. Both average prices, and hectares sold, were sharply down. Oil/gas raised an average of \$379, and oilsands leases made \$572. The government took in a comparatively meagre \$1.6 billion.

Now, if it was just the way the industry was going -- low gas prices, declining conventional oil, that would be one thing.

However, next door in British Columbia, things were going in the opposite direction.

As recorded a few days ago by Herald energy reporter Shaun Polczer, "Whereas Alberta's land sale tally fell more than \$2 billion, or 60 per cent, B.C. had a record year in 2007 by cracking \$1 billion in gross sales for the first time, shattering the previous record of \$647 million set in 2003. Its final land sale of the year on Dec. 12 netted the province a whopping \$418 million. By contrast, Alberta's final sale of the year on the same day brought in a paltry \$37 million."

Meanwhile, Saskatchewan also rocks with the Bakken field's light crude, and a royalty regime considered more friendly to junior exploration companies.

As Calgary oilman Pat Ward put it, "On a horizontally drilled well, Saskatchewan charges you a Crown royalty of 2.5 per cent on the first 37,000 barrels of production; Alberta charges more than 40 per cent right out of the gate. Where do you think people are going to go?"

After 37,000 barrels, royalties are comparable, adds Ward. But, what the Saskatchewan program allows is a fast payback. "I think if Alberta had done something similar, there wouldn't have been nearly the problem." As new Saskatchewan Premier Brad Wall said Monday at the Calgary Petroleum Club, his province is not raising royalty rates. His government's royalty review is just looking for other incentives to further stimulate an industry he says is now the province's main money spinner.

Stelmach has this going for him, that when he presents his budget next month, the close view in the rear view mirror won't be too bad. Oil has been up, oilsands production is up; together this will somewhat offset lower lease sales, and disappointing gas royalties.

His problem is the years after, how to slam the till shut when the demands keep rising after the revenues start to fall.

Stelmach should spend a few minutes with a Canada West pitch, released Monday. Author Ken Boessenkool points out that when Alberta legislates financial objectives, it tends to meet them. Good idea.

Trouble is, first one has to have objectives, and watching what's been done to the oilpatch, one wonders if this government ever had any. Back to Mintz who, on past form, should have an idea or two.

Thing is, there will always be ideas. It's chances Alberta is likely to run out of.

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