

Oilsands to beat out natural gas revenues for first time: province

BY LISA SCHMIDT AND SHAUN POLCZER, CALGARY HERALD FEBRUARY 10, 2010



Gary Leach, head of the Small Explorers and Producers Association of Canada, upper left. The oilsands have come a long way from the days of bucket wheels and are now set to overtake natural gas as a money-maker for the province.

Photograph by: Herald Archive, AFP-Getty Images, Calgary Herald

CALGARY - Oilsands will overtake natural gas for the first time as Alberta's resource revenues start to recover this year.

The provincial government is forecasting total energy revenues will rise to \$7.3 billion in the 2010-11 fiscal year, up \$1.3 billion, mostly due to stronger oil prices and higher oilsands production.

"This has been predicted for a long time. . . . It's time to cede the crown to the massive resource endowment in the oilsands," said Gary Leach, head of the Small Explorers and Producers Association of Canada whose members generally focus on developing Alberta's conventional -- and declining --

of Canada, whose members generally focus on developing Alberta's conventional -- and declining -- oil and gas reserves.

But the budget estimates released Tuesday do not include any potential changes to energy royalties or factors being looked at under the province's competitiveness review, results from which are expected early next month.

"It obviously could swing things," Finance Minister Ted Morton said Tuesday.

"The objective of the competitiveness review -- and the review of the royalty rates -- is to win back the confidence of the oil and gas sector, bring in new investment and, if it is successful in those regards, you will see . . . increases to personal income tax revenues, corporate income tax revenue."

Don Herring, president of the Canadian Association of Oilwell Drilling Contractors, said industry attention is more keenly focused on the competitiveness review than the actual budget. He's expecting those details will become known through the spring months.

"That's the focus of policy change that will impact us," Herring said.

Likewise, Greg Stringham, the Canadian Association of Petroleum Producers' vice-president of fiscal policy, said the review will trump other measures in the budget, such as higher infrastructure spending and incentives for technology research and carbon capture and storage.

"All those things are important, but the eyes of investors and the oil and gas industry will be on the competitiveness review," he said. "We did know they were going to take their time on the competitiveness review to make sure they get it right."

As a result, other jurisdictions have benefited from Alberta's dithering over royalties, said Frank Atkins, economist at the University of Calgary.

"I understand the resource price went down and drilling went down because of the prices and the economic slump. But . . . B.C., Saskatchewan and Alberta all faced the same world temperature, all faced the price of natural gas, yet we lost market share," he said. "We lost market share because the royalty review made us not competitive."

Under the province's current budget forecast, oilsands revenue will rise to \$3.2 billion, up 75 per cent from the 2009-10 forecast.

Production is expected to rise 16 per cent to nearly 1.8 million barrels a day, while oilsands producers cash in on higher bitumen prices.

Natural gas revenues -- which traditionally have accounted for the lion's share of resource revenue -- will increase about seven per cent to \$1.86 billion. That's down from a high of \$5.8 billion two years ago when prices soared.

The province expects natural gas prices to average \$4.25 a gigajoule in 2010, up from \$3.40 last year. Weak demand and massive supplies of the fuel, particularly from U.S. shale gas production, are expected to continue to weigh on prices.

Natural gas production will continue to fall, down to 14.2 billion cubic feet per day, a decline of about nine per cent.

Conventional oil royalties will rise to \$2.1 billion, up from \$1.8 billion, as higher oil prices offset a drop in production. Oil prices are forecast to average \$78.75 US a barrel this year, up from about \$70 US last year.

Ralph Glass, AJM Petroleum Consultants' vice-president of operations, said the province's oil price is on the high side, while the gas price might be overly pessimistic. AJM, which prepares price forecasts for a client list that includes EnCana Corp., Talisman Energy and the Alberta Investment Management Corp. (AIMCo), is expecting oil to average \$75 US a barrel in 2010 with \$5.55 Cdn for gas.

"It's probably realistic," he said. "I'm of the opinion that oil is a little aggressive. On the gas side, it's maybe a little conservative, but not unreasonable."

Land sales are forecast to come in at \$630 million, down about one-quarter from last year and about half of a high of \$1.1 billion in 2008.

Drilling incentives, announced by the province last year and extended into 2010-11, paid out only about half of what was budgeted in 2009 -- \$441 million. Another \$732 million has been set aside to spur drilling in 2010, the budget noted.

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