Effect of Alberta royalty rates not so painful

In recent quarterly reports, energy firms say higher rates won't pinch profits so hard

NORVAL SCOTT   Globe & Mail   November 10, 2007

CALGARY -- A swath of energy companies said this week that the impact of Alberta's increased royalty charges won't be as significant as some in the oil patch had initially feared.

Last month, Alberta announced that starting in 2009 it would boost the royalties it takes from oil and gas production in the province by around 20 per cent, a change that some industry players warned would cripple investment and affect future production.

However, in recently released quarterly financial results, some of Calgary's largest energy trusts have said they see relatively minimal affects to their operations, which should forestall predictions of doom and gloom, at least for now, say industry observers.

"The impact of the royalties will vary company by company, but to have so many firms say that they will only be marginally affected should calm people down," said independent Calgary-based analyst David Doig. "It seems the impact isn't going to be as bad as the worst-case scenarios predicted."

Since Thursday, Penn West Energy Trust, Harvest Energy Trust, Crescent Point Energy Trust, Prospex Resources Ltd. and Bonavista Energy Trust have all characterized the impact of the royalty increases upon their businesses as modest or minimal.

Penn West, Canada's second-largest energy trust, said the higher royalty rates would likely cost the company an additional 3 per cent of its cash flow.

"We're concerned that the government has increased its take from our sector," chief executive Bill Andrew said in a conference call. "But that's offset by the knowledge that additional funding is required to keep up with the needs of our expanding population, who we greatly depend on for our labour, our knowledge and our services."

Harvest Energy Trust said that while the royalty hike was a "negative event" for the Alberta oil and gas sector, "the impact to Harvest's current production is relatively neutral and could actually be marginally positive."However, Harvest, which operates the North Atlantic refinery in Newfoundland and Labrador, did reduce distributions by 21 per cent, a move analysts expected since narrowing refining margins were making the company's payout ratio unsustainable.

Not all companies are as mildly affected as these firms. The higher royalty rates for conventional oil production are seen as particularly oppressive for exploring juniors such as Highpine Oil and Gas Ltd., which estimates the increases will cut cash flow by 29 per cent.

"The royalty changes are discriminatory for companies engaged in high-risk, deep conventional oil exploration. ... [They] do not strike a balance between risk and reward in our composite drilling program," the company said in a statement.

Other companies, such as Provident Energy Ltd. and Enerplus Resources Fund, indicated that while they expect much of their operations to continue in Alberta - and could even make acquisitions in the province - they may still shift some activity to other provinces or into the United States.

Enerplus said the royalty hikes will hurt its business by $15-million to $20-million, or 2 per cent of cash flow, but it expects any impact on its oil sands strategy to be offset by the federal government's plans to reduce tax rates.

DuPont still 'quite bullish' on Alberta prospects

Enthusiastic Outlook; 'We're still very encouraged about where growth is going'

Jon Harding Financial Post Thursday, November 08, 2007

CALGARY - Global chemical powerhouse DuPont still considers Alberta and the province's oilpatch one of its leading growth prospects, even amid claims that higher royalties and taxes could slow development.

William White, president of Mississauga, Ont.-based DuPont Canada Co., said yesterday Alberta's oilsands sector, alone, represents $3-billion worth of "addressable market" to Wilmington, Del.,-based DuPont.

The world's second-largest chemical company by market value has not wavered in its enthusiastic outlook since Alberta became a focal point for growth one year ago, Mr. White said in an interview at the company's new Calgary office.

The Alberta government's recent plan to raise its take from oil, gas and oilsands players by 20% starting in 2009 doesn't override the fundamental fact that oil demand is rising, supplies around the world are falling, oil prices are surging towards US$100 a barrel and the Alberta oilsands hold 173.8 billion barrels of established reserves, he said.

"The royalties are potentially a big change but it's also a very dynamic market that has successfully dealt with many changes in the last 30 years," Mr. White said.

"The short answer is we're still very encouraged about where growth is going. Clearly, it's a very attractive space for us.

"There's an insatiable demand for the product [oil] and it's our job to try and help these really smart customers figure out how to deal with the dynamics, whether it's royalties, or how do I get my cost of manufacture costs down and increase my return.

"We're still quite bullish on [Alberta]."

DuPont, which once had a large chemicals business in Alberta but sold it 15 years ago to Nova Chemicals Corp., catered in more recent years to the province's agricultural industry.

Much like its huge U.S. counterpart, General Electric Company, did a little more than a year ago, DuPont set sites on the oilsands.

General Electric, which recently signed a memorandum of understanding through GE Canada to work with the Alberta government and invest in research and development on oilsands water issues, said its confidence in Alberta has not wavered.

"GE chairman Jeff Immelt was in Calgary meeting with out customers last month and we're still as bullish as we were a year ago," said Kim Warburton, head of communications for GE Canada.

Mr. White said DuPont is in talks with the "major players" about providing processes to more efficiently upgrade oilsands bitumen into synthetic crude oil, to capture emissions and better recycle water, or the fine tailings produced as a result of mining bitumen from the sand.

"Our strategy is simply, it's go where the growth is," Mr. White said.

"We won't be building the giant trucks that move the earth around the mines, that's not our area of expertise, but we might be making the Kevlar [DuPont's invention in the 1960s] that goes into their tires. That's how we get down to that $3-billion in opportunity."

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Calgary City commits $671M for LRT, rec centres

Bronconnier's plan approved at first sitting

Kim Guttormson and Colette Derworiz Calgary Herald Wednesday, November 07, 2007

The west leg of the LRT is now officially on the books, with money set aside to buy land, order new trains and with councillors set to debate the final alignment in two weeks.

On Tuesday, city council signed off on Mayor Dave Bronconnier's election promises to proceed with the west leg, extend the LRT's northeast and northwest lines and fund new recreation facilities -- despite concerns from some the decision was rushed and didn't look at overall infrastructure needs in Calgary.

By the end of the first meeting of the new term, called specifically to deal with this issue, council had agreed to spend $671.5 million from the $3.3 billion in infrastructure money promised by the province over the next decade.

"I think overall this is a very good day for transportation in Calgary. It says the LRT is important and will remain the backbone of our primary transportation network," Bronconnier said.

"All we've been waiting for over the past number of years has been sufficient funding to actually build (the west leg).

"Now that we have the funding, I say let's get on with it."

The city will order 34 new LRT cars, build three new C-Train stations and start work on designing the west leg of the LRT.

Two of the three stations will be added to the northwest line, with the other added in the northeast, with work beginning in the next 12 to 18 months.

The city will also focus on buying the last pieces of land for the west leg.

Options for the exact route of the new line will be brought to city council's strategic planning meeting Nov. 21. The report will include suggestions for providing service to Mount Royal College and the Tsuu T'ina lands, which are south of the proposed route along Bow Trail and 17th Avenue.

The west leg is estimated to cost about $700 million to build.

Bronconnier, who took some heat over why the matter needed to be dealt with Tuesday rather than Nov. 21, said later that "when you're working on a number of different strategies with other levels of government and other community groups, it's important we demonstrate to those groups that we can move in a timely fashion. City council demonstrated that today."

Ald. Druh Farrell, who challenged the mayor on the urgency of the approvals, said she was mostly concerned about decisions being made in isolation.

"We have a continuous sustainable funding source for transportation projects, including roads," she said, "and we still are heavily funding the roads.

"There comes a time when the city needs to make a choice and we continue to neglect other things that, in my view, build a great city -- so open space, particularly in the inner city, is not on the table, and arts and culture."

Bronconnier said the city's growth demands will always outstrip the money available to fix them.

"I don't have a silver bullet to solve every issue raised today," he said, adding that council has said transit and recreation facilities are priorities. "This does not preclude this council from moving forward in other priority areas."

Ald. Bob Hawkesworth was concerned Tuesday's approval didn't allow council to do its due diligence.

"I felt rushed. If I had the kind of information I was looking for, I might be the most enthusiastic of all council members. But I didn't feel I had that information today," he said. "I didn't feel I could tell people if this was the best bang for the buck as far as transportation spending was concerned."

In the end, council unanimously approved spending $50 million on necessary land for the west leg, but Hawkesworth voted against extending the northeast line, while he, Farrell, Ald. Joe Ceci and Ald. Brian Pincott voted against extending the northwest leg.

Council, with the exception of Ald. Dale Hodges, approved spending $6 million to design future tunnel alignments downtown, which will be necessary for an eventual southeast LRT leg.

Council also unanimously approved up to $301.5 million for recreation and sport facilities over the next decade, including three regional recreation centres, seven additional ice rinks and four soccer fields.

It also includes $40 million for sport facility renewal in the four quadrants of the city.

The regional recreation centres, which include libraries, will be located in the northeast, southeast and northwest quadrants of the city.

"If you look in the far northwest . . . there is virtually a new city forming in the northwest quadrant, as there is in the northeast, as there is in the southeast," said Bronconnier, noting the northeast facility has been given council support three times.

"Now it's time to actually put money towards it."

Greg Steiner, director of the Northeast Centre of Community Society, which is a community-based partner in the project, said it was about time.

"I am personally ecstatic about it," he said. "It presents movement from an unfunded budget to a funded budget and I am not at all bothered about having three recreational centres put in.

"The more we do for leisure, recreation and sports activity, the better we are in Calgary."

Farrell said while she had no trouble supporting the recreation facilities, it's only a fraction of what is needed for the city.

"Certainly recreation is now covered, in my view," she said. "But as far as arts and culture and open space, they will continue to be neglected."

Farrell said she doesn't believe the issues will be addressed in the coming years.

"It's just not on the table," she said, noting she will continue to push for more parks and cultural facilities.

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Infrastructure Spending Plan:

TRANSIT: Council approved a $370 million investment for C-Train expansion:

1. Northeast extension to Saddle Ridge: $110 million

2. Northwest extension to Rocky Ridge and Tuscany: $120 million

3. New west leg: $134 million in initial costs for C-Train cars and strategic land purchases. There will also be a report to council on Nov. 21 on options for the new line.

4. 8th Avenue tunnel (subway) design study: $6 million

5. Rec Centres: Council also approved $301.5 million for recreation facilities:

6. Regional recreation centres in northeast, southeast and northwest: $210 million

7. Calgary Olympic Development Association partnership for quad ice arena (two city ice surfaces): $20 million

8. South Fish Creek Recreation Association (two ice surfaces): $14 million

9. Family Leisure Centre (one ice surface): $9.5 million

New Brighton Athletic Park (four tournament-standard soccer fields): $8 million

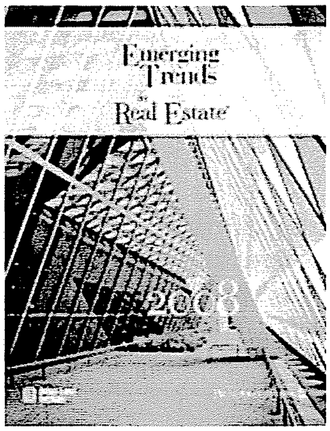
Facility upgrades and retrofitting: $40 million ($10 million per quadrant)

PRICEWATERHOUSECOOPERS Urban Land Institute

Canadian Real Estate to Be Leader in 2008

TORONTO, Nov. 5 /CNW/ - **Leading real estate experts are predicting the US commercial real estate market will slow in 2008 and follow a similar pattern as the current residential market. However, according to the annual Emerging Trends in Real Estate 2008 report, released by PricewaterhouseCoopers (PwC) and the Urban Land Institute (ULI), their Canadian counterparts are much more upbeat.**

Now in its 29th year, Emerging Trends is the oldest, most highly regarded annual industry outlook for the real estate industry. The report reflects interviews with and surveys of more than 600 of the industry's leading real estate experts, including investors, developers, property company representatives, lenders, brokers and consultants in both Canada and the US. Other versions of this report are conducted in countries around the world including Asia Pacific and Europe.



According to Chris Potter, PwC partner and leader of the firm's Canadian Real Estate Tax practice, Canada benefits from a more conservative investment environment than the US. **"In Canada, institution-dominated markets appear to be avoiding 'transaction mania', but real estate values have reached record highs and a strong economy has accelerated tenant demand for space."**

According to American respondents, a healthy correction south of the border will likely bypass long-term investors but penalize late-to-the-game speculators and overleveraged buyers. **Canadian respondents to the survey remain positive about sidestepping any serious impacts of this possible US correction. Close to 36% view their prospects for profitability in 2008 to be very good and a further 22.4% say they're excellent.**

The strongest areas of real estate business activity for Canadian respondents is predicted to be within real estate services, followed by commercial/multifamily development and homebuilding/residential land development. All property sectors share positive prospects across the country especially industrial and retail with respondents, on average, stating development prospects are expected to be modestly good to good. The residential for-sale market is also expected to fair well, but might need to take a breather as homebuilders cannot keep up with the current pace and single-family housing looks overpriced.

Office stock is seeing limited inventories and dated product fill up with tenants. Except for Montreal, where office vacancies are nearing 9%. Canadian metropolitan areas boast below 5% vacancies, and rents have room to push higher. The survey is also showing that costs and land scarcity is limiting new development. Hotel investment and development prospects are modestly good, and most respondents rate this sector either a buy or a hold. **Rental apartments are doing well in major cities with high immigration flows. Primary western cities - Vancouver, Calgary, and Edmonton - are veering toward housing shortages as workers, attracted by a plethora of well-paying jobs, pour into the energy zone. Apartment occupancies are soaring in these areas. Development in other regions remains difficult because of costs and land scarcity**.

The report notes that best bets for Canadian investors for the coming years include a focus on all property sectors in the high-growth western energy markets, hold on central business district office space, develop infill condos near subway and transit stops and buy infill sites wherever you can.

Con't...

Canadian Markets to Watch

The report comments on how Canadians like to live and work in central cities, as long as they can afford it. If housing is too pricey in 24-hour neighbourhoods, people move to inner-ring suburbs or beyond and commute back into the cores. Investors, especially the institutions, are concentrated in downtown areas too.

Planners and developers focus on infill and more vertical projects, which reinforce the urban cores. **The hot-growth energy cities out west - Calgary and Edmonton - score the highest ratings for investment prospects, development, and for-sale housing, although it is not certain whether the recent announcements on royalties will have any effect on this.** Toronto, Canada's premier global pathway city, and Vancouver also have high ratings. Ottawa and Montreal follow, with Halifax lagging.

Calgary/Edmonton

Calgary is the Canada's "resource" capital and North America's number-one boomtown. Survey respondents foresee strong buys for all sectors: 53.5% give a buy recommendation for Hotel Property, 52.8% for Industrial/Distribution, 48.1% for Retail and Apartment Residential and 44.6% for Office Property. Furthermore, on average the majority of respondents see Calgary For-Sale Homebuilding prospects as very good. Edmonton is closely mimicking the Calgary-style growth wave and as long as demand for energy resources stays strong, this market will continue to do well.

Vancouver

Vancouver's diversified economy is roaring, the mining industry is booming and the city provides a large port and a high-tech center. **Outrageous real estate prices frustrate homebuyers and commercial investors and the market is extremely hard to crack.** The 2010 Winter Olympic Games is also a growth driver and accordingly 44.7% of respondents give Vancouver a buy recommendation for Hotel Property. A further 43.5% give a buy Retail, 41.3% for Industrial/Distribution and 36.7% for Office Property followed by 34.1% for Apartment Residential property. Vancouver also ranks in the good to very good mark for for-sale homebuilding prospects.

Toronto

Toronto ranks as a major global pathway destination, 24-hour city, and manufacturing hub. **Compared with other national financial centers, the city is relatively inexpensive.** However, the rising loonie is hurting manufacturing industries, and clouds over the US economy threaten to stall out momentum.
Three new office towers are under construction, adding 3 million new square feet of office space. Notably, Office (49.1%), Industrial (46.2%) and Apartments (40.8%) are given solid buys.

Montreal

Montreal continues to face concerns about market stability and overall growth prospects as major companies no longer choose it as a place to set up shop. But, plenty of government offices fill space. **Of the larger cities in Canada, Montreal ranks lowest as a "buy" recommendation in all real estate sectors.** However, respondents generally rated all Montreal real estate sectors higher as a "hold" recommendation.

A copy of ***Emerging Trends in Real Estate® 2008*** is available at www.uli.org or www.pwc.com/imre .