

Energy—Royalty Review Systems Follow-up

FINDINGS

Improving annual performance measures—implemented

Background

In our 2007 report¹ we made five recommendations to the Department of Energy to improve its royalty review systems. In 2011² we found that the department had implemented four of the recommendations and made satisfactory progress implementing our recommendation to improve its annual performance measures. The department developed a measure and supplementary indicators to measure the competitiveness of the conventional oil and natural gas royalty regimes in relation to other jurisdictions. We did not assess the recommendation as implemented because the department did not have performance measures to assess whether the bitumen royalty regime was meeting stated objectives.

Our audit findings

The department has implemented our recommendation. In the Ministry of Energy's 2012–2013 business plan the department introduced a new measure that reflects the relative impact of oil sands production in Alberta to the global oil market. This measure was publicly reported in the ministry's 2012–2013 annual report.³ The measure is a ratio of the total number of barrels of Alberta bitumen production in comparison to the total number of barrels of world oil consumption. Alberta bitumen production includes mined and in-situ bitumen produced during the most recent calendar year. The Alberta production data is based upon information from Alberta Energy Regulator reports.⁴ World oil consumption data is from the Oil Market Report, published by the International Energy Agency.

The target of 2 per cent (2012 actual was 2.1 per cent) set by the department is intended to benchmark, over time, the relative significance of Alberta's bitumen production in comparison to global oil consumption. The department will assess the target each year and adjust as deemed appropriate. The department, through its discussion of results included in the annual report, states that key levers such as the fiscal and royalty regimes have an impact on resource development activities and will impact the results of the measure. Other factors that could impact the measure results include market access, technology and environmental regulations. In the discussion of results, the department also specifies whether the increasing percentage share is due to bitumen production growth and/or declining consumption.

We found that the department completed a comprehensive study and analysis to select and develop this performance measure. The department considered many indicators such as investment, royalties in comparison to industry revenues and economic activity. The department concluded that for the stated purpose of the performance measure, Alberta oil sands supply share of global oil consumption is appropriate for distilling the complex matter into a single, coherent and reportable number.

Supplemental indicators such as synthetic crude oil production and bitumen wells drilled have also been reported by the department to provide further information on industry activity.⁵ Also, information about royalties, pre-payout and post-payout projects, and bitumen upgrading is also available on the ministry's website.⁶

¹ *Report of the Auditor General of Alberta—October 2007*, pages 115-132.

² *Report of the Auditor General of Alberta—April 2011*, pages 31-39.

³ Ministry of Energy Annual Report—2012–2013, page 26.

⁴ ERCB ST-39 and ST-43 for mine production data and ST-53 for in-situ production data.

⁵ Ministry of Energy Annual Report—2012–2013, page 14.

⁶ Energy website: http://www.energy.alberta.ca/about_us/1702.asp

