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CALGARY - The Canadian oilpatch plans to challenge a controversial report this week that says Albertans aren't getting their fair share of oil and gas revenues and recommends a major boost to provincial royalties.

The energy industry has been up in arms since last week's release of the much-anticipated royalty review report, with one senior executive calling it "draconian" as stock prices drifted downward.

Some oil analysts compared the measures to those taken in Venezuela and former Soviet-bloc countries where royalty regimes change without warning, generating the mocking title of "Albertastan."

Premier Ed Stelmach says he's willing to consult with the oilpatch and others before making a final decision in early October.

But with a provincial election looming within a year and opinion polls near historic lows, the issue couldn't get bigger for the Alberta leader still trying to find his stride after taking over from Ralph Klein late last year.

The Canadian Association of Petroleum Producers, which speaks for almost all the big oil and gas companies, says its thorough review of the panel's findings revealed "several fundamental concerns" that have a significant impact on the results and recommendations.

Greg Stringham, vice president of markets with CAPP, said his group will release its findings to the Alberta government and the public early this week.

"The industry can hardly believe the extent of the changes" suggested in the report, said Stringham.

"And more fundamentally, it cannot understand how the panel can assume that these recommendations wouldn't affect activity levels, investment and future jobs in making their projections for future revenue increases."

The panel, commissioned by Stelmach earlier this year, pulled no punches in its report, with the first sentence stating unequivocally that "Albertans do not receive their fair share from energy development."

The panel's key recommendations include boosting overall royalties by 20 per cent or nearly $2 billion annually, primarily on the back of the burgeoning oilsands sector in northern Alberta.

Along with increasing key rates for oilsands facilities after they have earned back all construction costs, the report says a new severance tax should be levied against the production of all raw oilsands bitumen.

The report also said there should be no grandfathering clause that would allow existing projects to avoid paying the higher royalties.

And it was highly critical of Alberta Energy's role in trying to maximize activity in the energy sector while concurrently trying to ensure that Albertans receive their fair share from energy development.

"In this context, the minister of energy is judge, jury and executioner when it comes to creating special incentive programs or royalty holidays that defer, reduce or eliminate income for the province," said the report.

The opposition Alberta Liberals say this "lack of government accountability" has allowed $8.6 billion to slip through provincial hands over the last 15 years.

Many outside observers also see little reason why Alberta shouldn't demand a higher take from an industry that has revelled in record profits over the past several years as commodity prices hit record highs.

Don Drummond, chief economist with TD Bank, said concessions and tax breaks that were implemented years ago when the industry was young - particularly the oilsands - could stand to be reviewed.

"I think it's natural to look at them over time when the industry's more mature."

Joseph Doucet, a professor of energy economics at the University of Alberta, said while it is a difficult political decision to take, it is not unprecedented.

"Governments do make decisions which have an impact on the value for firms and shareholders, and that happens all the time."

One similar example is Prime Minister Stephen Harper's decision last October to begin taxing income trusts the same as other companies.

Justified as the only way to stop the corporate tax flow from drying up, the decision shook the confidence of the entire sector, lost billions of dollars in stock market worth and made Harper some powerful enemies in corporate Canada.

Glen Hodgson, chief economist at the Conference Board of Canada, said Alberta's royalty ruckus could be avoided if the province made an open and transparent policy of regularly reviewing the rates to ensure they're neither too generous nor too punitive.

"What is good practice in setting royalty rates? Do you go 25 years without tinkering with them? Or do you say: 'Every three to five years we're going to have a reset?' "
