



Resource Revenue and Operations
Gas Royalty Operations
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Dear Gas Royalty Client:

We wish to welcome you as a new client and take this opportunity to provide some key information relating to your responsibility as a gas royalty client.

Authority

The Crown owns the mineral rights underlying Crown lands. The Crown's right to an owner's share (the Crown royalty share) of the minerals produced from lands under lease is established in the Crown lease agreement and in the *Mines and Minerals Act*. The Crown royalty on natural gas or any of the constituent products of natural gas is established in the *Natural Gas Royalty Regulation, 2009 Alta Reg 221/2008*, and the *Natural Gas Royalty Regulation, 2017, Alta Reg 211/2016*. Please contact the Queen's Printer at 780.427.4952, if you would like to obtain a copy of the *Mines and Minerals Act* and the *Natural Gas Royalty Regulations*.

Alberta Natural Gas Royalty Guidelines

The Alberta Natural Gas Royalty Guidelines (the Guidelines) provide an understanding of the general applications and principles for calculating royalty and are available to royalty clients. The Guidelines describe the reporting requirements, due dates, and processes involved in assessing, levying, and collecting gas and gas product royalties. The Guidelines can be accessed online at <https://www.alberta.ca/natural-gas-royalty-guidelines.aspx>.

Natural Gas Information Letter and Gas Royalty Information Bulletin

Each month the department publishes an *Information Letter* and *Information Bulletin*, which include notices of operational requirements, activities and pricing information. They can be accessed at <https://www.alberta.ca/natural-gas-information-bulletins-and-information-letters.aspx>.

To subscribe to the Natural Gas *Information Letter* and *Gas Royalty Information Bulletin*, click on the *SUBSCRIBE* link provided on the respective webpages, or go to <https://www.alberta.ca/subscribe-to-energy-news-and-bulletins.aspx> and follow the instructions.

Gas Royalty Client Responsibility

As a gas royalty client, you are responsible for satisfying the royalty obligations and complying with the applicable regulations and reporting requirements. There are consequences for noncompliance. For all filing requirements, *please refer to Chapter I, Section 3 of the Guidelines*. For consequences of non-compliance, *please refer to Chapter II, Section 1 of the Guidelines*.

Data Required for the Calculation of Crown Royalty

The Crown, in most cases, charges royalty for gas (residue gas) and gas products (ethane, propane, butanes, pentanes plus, and sulphur) at the plant gate exit. Crown royalty on unprocessed gas sales (raw gas) is charged at the battery or gathering system. Following are some examples of the data components used for calculating Crown royalty:

Volumetric Allocation

A facility operator is required to submit the appropriate reports: Volumetric, Stream Allocation Factor (SAF) and Owner Allocation Factor (OAF) to Petrinex by the 10th day of the second month following the month of production. The facility operator is also required to submit the In-Stream Component (ISC) breakdown to report the composition of the gas stream. The department uses this information to determine the Crown royalty obligation.

Please refer to Chapter III, Section 1 of the Guidelines.

Crown Interest

The Crown's interest share of production is determined by the ownership of minerals, in the Crown lease, at a well event from which natural gas is recovered. *Please refer to Chapter III, Section 1 of the Guidelines.*

Product Royalty Rate

Royalty rates are calculated according to the royalty regime in effect for a specific well. The Modernized Royalty Framework applies to wells spud starting January 2017, or from July 2016 for early opt-in wells. The Alberta Royalty Framework will be used for wells spud prior to January 2017, and will continue to apply to these wells until December 31, 2026, after which time the MRF rates will apply.

MODERNIZED ROYALTY FRAMEWORK

Gas and by-product royalty rates: Alberta's Modernized Royalty Framework partially emulates a revenue minus cost royalty structure. A flat royalty of 5% will be applied on a well's production until the well's total revenue, from all hydrocarbon products, equals the drilling and completion cost allowance calculated for that well. Afterwards, the company will pay higher royalty rates that vary depending on the resource and market prices. Modernized royalty formulas are price sensitive and product specific. The royalty rate for methane, ethane, propane and butane ranges from a minimum of 5% to a maximum of 36%, and for pentanes plus ranges from a minimum of 5% to a maximum of 40%. The sulphur royalty rate is fixed at 16.66667%. The Alberta Modernized Royalty Framework Guidelines can be accessed online at <https://www.alberta.ca/natural-gas-royalty-guidelines.aspx>. *For more details about the Modernized Royalty Framework, please refer to <https://www.alberta.ca/royalty-overview-and-guides.aspx>.*

ALBERTA ROYALTY FRAMEWORK

Gas Royalty Rate: The gas royalty rate is calculated using the Well Event Average Royalty Rate (WEARR) method. This calculation method is also used for the ethane royalty rate.

Please refer to Chapter IV, Sections 1 and 2 of the Natural Gas Royalty Guidelines.

By-Product Royalty Rates: The royalty rate for propane and butanes is a fixed rate of 30% and for pentanes plus it is fixed at 40%. The sulphur royalty rate is fixed at 16.66667 %.

Please refer to Chapter IV, Sections 2, 3 and 4 of the Natural Gas Royalty Guidelines.

Product Valuation

Gas Valuation: The value of the Crown royalty share of gas and gas products produced and recovered in a month is determined based on the Reference Price for each distinct product in the month.

By-Product Valuation: The department values ethane, propane, butanes and pentanes using the product reference price, less transportation, where applicable. The department calculates the reference price of each product and publishes these prices in the *Information Letter* and *Information Bulletin* every month. *Please refer to Chapter IV, Sections 2, 3 and 4 of the Guidelines.*

Allowable Costs

The Crown deducts allowances for capital costs, operating costs, and custom processing fees that are incurred and paid in Alberta for compressing, gathering and processing its royalty share of gas and gas products. These costs are reported and allocated to royalty clients mainly by the operators of the facilities. The Crown calculates a Facility Effective Royalty Rate (FERR) to determine the Crown's share of eligible costs. Eligible costs are deducted from the royalties payable monthly, on an estimated basis, and adjusted annually when the actual costs are reported. Eligible costs cannot exceed royalties payable and unused costs cannot be carried forward. A written request of estimated annual costs must be submitted to the department for the royalty client to receive an estimated monthly Crown share of cost deduction in the first year of operation. *Please refer to Chapter VI of the Guidelines.*

Royalty Deposit Account

Each royalty client must maintain a royalty deposit on account with the department. Currently, for a new royalty client, the royalty deposit equals the first and second month's Crown royalty. The deposit is charged in the invoices issued in these two months. *Please refer to Chapter VII, Section 1 of the Guidelines.*

Monthly Invoice

The department issues a gas royalty invoice and a statement of account monthly to all gas royalty clients. The gas royalty invoice and supporting detail reports are issued on or before the last day of each month to a client who has received allocations of royalty liable volumes. The gas royalty statement of account is issued on or before the 15th day of a month and includes invoiced amounts and payments received. Interest on unpaid invoiced amounts, transfers and refunds are also reflected on the statement of account. Interest is compounded and is charged on late or underpayments at the Alberta Treasury Prime Interest Rate plus one percent. *Please refer to Chapter VII, Section 1 of the Guidelines.*

Payment Information

Each client is assigned a unique six (6) digit G94 account number, which is reflected on the Gas Royalty Invoice and Statement of Account. It is imperative that clients identify their G94 account number on payment remittances to the Government of Alberta. *Please refer to Appendix K of the Guidelines.*

The invoice payment due date is on or before the last day of the third month following the month of production. The Information Bulletin published monthly provides specific due dates.

Amalgamation/Consolidation of Companies

A client is also considered *new* when the client receives a new Business Associate (BA) ID or when two or more existing companies amalgamate/consolidate to form a company with a new name and a new BA ID. For information on amalgamation and consolidation, *please refer to Chapter II, Section 4 of the Guidelines.*

Royalty Features

The department has programs to promote development of petroleum and natural gas reserves in Alberta. Program exemptions are applied to royalty that would otherwise be payable on the Crown interest portion of production from eligible well events. *For a list of the programs available under the Alberta Royalty Framework, please refer to Chapter V of the Guidelines and for the programs available under the Modernized Royalty Framework, please refer to the Alberta.ca website at: <https://www.alberta.ca/royalty-overview-and-guides.aspx>.*

Petrinex

Petrinex allows royalty clients to directly input and retrieve most royalty related information. All gas royalty reports are delivered to Petrinex and are uploaded by default in PDF/CSV/TXT formats. Certain reports, relating to the invoice and Crown royalty details, are also available in the Electronic Data Interchange (EDI) format. A client, who wishes to change the mode of delivery to the EDI format for these particular reports, must submit a written request to Volumetric & Cost Reporting, (V&CR), Gas Royalty Operations. See below for contact information.

How to Apply for Petrinex Access

Petrinex is accessed through the Internet at: www.petrinex.ca. Prior to conducting business on Petrinex, a company/individual must have a Business Associate (BA) code and a BA User Security Administrator (USA) ID and password. To obtain information about applying for these IDs and password, please go to the Petrinex website and click on 'Apply for Access'. The USA is responsible for setting up and managing access to Petrinex for all designated users for that BA.

A royalty client must also be set up with a Working Interest Owner (WIO) Role to receive volumetric allocations from the operator of a facility. Further information on this process can be obtained by contacting the Petrinex Service Desk. See below for contact information.

Royalty clients who do not have access to Petrinex may submit a written request for a BA ID and/or a WIO Role to:

Crown Land Data
Tenure, Resource Revenue and Operations
Fax: 780.422.0382
Email: CrownLandDataSupport@gov.ab.ca

Petrinex Training Modules

Training modules are available through the Petrinex web site (www.petrinex.ca) under the 'Learning Centre' tab. To obtain a training ID and password for these modules, click 'login' and then 'Register Now'.

Petrinex Service Desk contact numbers are:

Telephone: 403.297.6111 (Calgary)

Telephone: 1.800.992.1144 (other locations)

Fax: 403.297.3665

Email: petrinexsupport@petrinex.ca

Gas Royalty Operations

The Volumetric & Cost Reporting (V&CR) unit assists royalty clients in all aspects of gas royalty reporting.

V&CR's main points of contact are:

Voicemail: 780.422.8727

Fax: 780.427.3334

Email: VCR@gov.ab.ca

The V&CR unit is available Monday to Friday from 8:15 a.m. to 4:30 p.m. (excluding holidays).

Please contact us if you require further information or visit our website at the following address:
<https://www.alberta.ca/energy.aspx>.



Richard Stokl
Director, Gas Royalty Operations