Alberta

News release

BUILDING TOMORROW

A PLAN to secure Alberta's future

October 25, 2007

Premier Stelmach delivers historic, new royalty regime for Alberta

New Royalty Framework gives Albertans their fair share; supports sustainable, vigorous energy sector

Calgary... Albertans will receive their fair share from the development of the province's non-renewable energy resources under a new royalty regime that also supports a robust, sustainable energy sector. Premier Ed Stelmach outlined his government's plan that will see Albertans benefit from increased royalties generated by an internationally competitive energy industry.

"I made a commitment and I delivered. Future generations of Albertans will receive a fair share from the development of their resources. I offer stability and predictability to those in the oil and gas industry, and the time to adjust to royalty changes. And I can also assure investors that Alberta will remain an internationally competitive and stable place to do business," said Premier Stelmach.

Alberta's New Royalty Framework fulfills Premier Stelmach's commitment to establish a regime that meets the needs of Albertans today and in the future. The new framework is based on input received from the public, industry, international experts as well as the report of the Alberta Royalty Review Panel established earlier this year.

Royalties are expected to increase by $1.4 billion in 2010, a 20-per-cent increase over currently projected revenues for that year. Actual revenues will depend on future prices and production levels in the province. Therefore, the Alberta government's annual budget development process will not change.

The new royalty regime includes the following components.

- New, simplified royalty formulas for conventional oil and natural gas that will operate on sliding scales that are determined by commodity prices and well productivity. The formulas eliminate the need for conventional oil and natural gas tiers and several royalty exemption programs.
- A sliding scale will be implemented for oil sands royalty rates ranging from one to nine per cent pre-payout and 25 to 40 per cent post-payout depending on the price of oil.
- The province will exercise its existing right to receive "royalty-in-kind" on oil sands projects (i.e. raw bitumen delivered to the Crown-operated Alberta Petroleum Marketing Commission in lieu of cash royalties). Because this bitumen can be sold or used for upgrading or refining, royalty-in-kind can be sold by the province to support value-added, upgrading projects in Alberta.
- The province will ensure that eligible expenditures and definitions of oil sands projects (also known as "ring fence" definition) that determine when a project has reached payout are tightly and clearly defined. Environmental "costs of doing business" will continue to be recognized as eligible expenditures.
- No grandfathering will be implemented for existing oil sands projects. The government is in

discussions with Syncrude and Suncor, whose Crown agreements expire in 2016, to transition to the new oil sands royalty regime.
- Substantial legislative, regulatory and systems updates will be introduced before changes become fully effective in January 2009.

In response to the panel's comments on accountability and to the recommendations included in the Auditor General's 2006-07 annual report, the government will initiate a review of all systems, structures and resources related to the collection and reporting of energy royalties. The project will be led by Former Auditor General Peter Valentine and it will be completed by March 31, 2008.

While many of the recommendations made by the Royalty Review Panel were accepted and will be implemented, a number of recommendations will be implemented with modifications and others have been rejected. The recommendation related to a tradable upgrader credit will be studied further in the context of the province's overall value-added strategy.

Implementing a new royalty regime is part of Premier Stelmach's plan to secure Alberta's future by building our communities, greening our growth and creating opportunity.

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Backgrounders: Highlights of Alberta's New Royalty Framework
History of Alberta's royalty regime and Mechanics of Changing Royalty Rates
Public Input—Royalty Review 2007

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Highlights of Alberta's New Royalty Framework

Alberta's New Royalty Framework is the culmination of detailed study and analysis, extensive consultation, thoughtful deliberation, and a commitment to ensure Albertans receive their fair share from energy development. It represents fundamental change to current royalty structures, and based on current estimates, is expected to increase royalty revenues by approximately 20 per cent in 2010.

Conventional Oil

- The government will simplify royalties for conventional oil, eliminating specialty royalty programs and tiers. Royalties will be set by a sliding rate formula containing separate elements that account for oil price and well production. Royalty rates will range up to 50 per cent, with rate caps at $120 per barrel.

Natural Gas

- Gas royalties will be set by a sliding rate formula sensitive to price and production volume. New royalty rates will range from five per cent to 50 per cent with rate caps at $17.50 Cdn /MMBtu (Million British Thermal Units).
- The government will eliminate all tiers, but will retain natural gas programs for the Otherwise Flared Solution Gas Royalty Waiver Program, which improves air quality through solution gas conservation. New incentives consistent with the current Deep Gas Drilling Program will be implemented to support development of costly deep reserves.
- Royalties for natural gas liquids will be set at 40 per cent for pentanes and 30 per cent for butanes and propane.
- The government will continue to use deemed fees for gathering and compression in Alberta. It will move to a facility-level calculation for capital costs and continue to recognize actual costs for gas plant processing, where the cost differences are more significant.

Oil Sands

- The government will increase its royalty share from oil sands development by introducing price-sensitive formulas both pre- and post-payout, rather than implementing an industry-wide tax on oil sands production.
- The base royalty will start at one per cent, and increase for every dollar the world oil price, as reflected by West Texas Intermediate (WTI), is priced above $55 per barrel, to a maximum of nine per cent when oil is priced at $120 or higher. The net royalty will start at 25 per cent and increase for every dollar oil is priced above $55 per barrel to 40 per cent when oil is priced at $120 or higher.
- Government will work with Syncrude and Suncor over the next 90 days to reach an agreement on a transition plan to the new royalty framework. In the event an agreement cannot be reached, the government will take other measures to ensure a level playing field for all industry stakeholders.
- The government will adopt a permanent generic "bitumen valuation methodology" by June 30, 2008, after consulting with stakeholders and independent advisors.
- The government will comprehensively and extensively review and tighten, if required, current rules and enforcement procedures to ensure that absolutely clear, transparent, auditable and appropriate definitions exist for oil sands projects and eligible expenditures.
- Companies with primary wells in areas designated as oil sands will continue to have the option of electing oil sands royalty status.

- The province will eliminate the provincial portion of the Accelerated Capital Cost Allowance consistent with the decision outlined by the federal government for oil sands projects.

Value Added

- By exercising its right to collect royalty-in-kind where feasible, the province will be able to receive raw bitumen in lieu of royalties, which can be sold to upgrading facilities in Alberta.
- The government will consider other ways to attract investment in the construction of additional upgraders and refineries in Alberta. This will include further study of an upgrader credit.
- The government will consult with industry on its options, determine the most effective approach, and announce its decision in 2008.

Accountability

- The government will assess and recommend improvements in the systems, structures and resources that support the collection, verification and reporting of energy revenues.
- Former Auditor General Peter Valentine will lead this project, which will begin in November 2007 and will be completed by March 31, 2008.

Freehold Mineral Rights Tax

- The current Freehold Mineral Rights Tax structure will not be changed, but will be reviewed to ensure it is fulfilling its intended objectives.

Timing

- With the exception of the accountability initiative, all changes will take effect on January 1, 2009.

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History of Alberta's royalty regime

Alberta has made significant changes to royalty rates on four occasions over the past 60 years:

- **1941** - Alberta shifted royalty rates on oil from a flat rate of 10 per cent to a choice of a 12.5 per cent flat rate or a five to 15 per cent royalty based on production levels.
- **1972** - Royalty rates were raised at a time when the world price of oil averaged $3 per barrel.
- **1974** - Royalties were raised again in response to higher world oil prices, which averaged $12 per barrel.
- **1997** - the Oil Sands Generic Royalty Regime set rates and established the federal accelerated capital cost allowance for oil sands projects to encourage development. The world price of oil averaged $22 per barrel, dropping to $10 per barrel in 1999.
- **2006** - announced changes to four royalty programs and the elimination of the Alberta Royalty Tax Credit. Once fully implemented, changes will increase revenues by nearly $300 million a year.

Mechanics of Changing Royalty Rates

- Significant changes to the royalty regime require new legislation, changes to existing legislation and regulations and the Department of Energy's proprietary software used for calculation and collection of royalties. The estimated date for implementation is January 1, 2009.
- The proposed changes will require new legislation and amendments to 11 existing Acts and Regulations:
  - *Mines and Minerals Act*
  - Mines and Minerals Administration Regulation
  - *Petroleum Royalty Regulation*
  - *Oil Sands Royalty Regulation, 1997*
  - *Oil Sands Tenure Regulation*
  - *Natural Gas Royalty Regulation*
  - *Freehold Mineral Tax Regulation*
  - *Four regulations regarding royalty reduction for low productivity or high cost wells.*
- Alberta Energy currently utilizes five software systems to calculate and collect royalties from industry. Implementing the changes outlined in Alberta's new royalty framework will require new programs as well as substantial re-writes to existing software programs.

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Public Input - Royalty Review 2007

Before, during and after the Royalty Review Panel began public hearings in late April 2007, Albertans have expressed their views on Alberta's royalty regime.

Presentations to the Royalty Review Panel (http://www.albertaroyaltyreview.ca/index.html)

- The panel conducted public hearings in Grande Prairie, Edmonton, Calgary, Fort McMurray and Medicine Hat.
- The panel heard more than 100 submissions from individuals and organizations, and received 224 submissions in total, including those delivered by fax, mail, online and in person.
- The Royalty Review Panel website was visited 56,000 times.
- Of the 15 per cent of visitors to the panel's website who answered the question, "Are Albertans getting a fair share?", 66 per cent responded no, while 33 per cent said yes.
- Almost 56 per cent of visitors to the website expressed a direct opinion as to whether royalties should be increased, decreased or left the same: 37 per cent supported an increase; only one per cent favoured a decrease; while 18 per cent felt that the royalty rate should not be changed.

Online Feedback (http://www.gov.ab.ca/home/Feedback)

- Since the release of the report of the Royalty Review Panel, nearly 9,000 Albertans posted, faxed, phoned and e-mailed supporting or opposing the panel's recommendations.
- While one-third of respondents encouraged government to accept all of the panel's recommendations or go even further, two-thirds opposed government accepting the recommendations in their entirety.

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Send us your comments or questions

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