Government of Alberta

News release

The Way Forward

Alberta

May 27, 2010

Alberta stimulates new energy investment, new technologies

Calgary... To further energize investment, the Alberta government unveiled initiatives to accelerate new technologies to encourage development of Alberta's vast unconventional and deep resource pools and finalized royalty curves for conventional oil and gas.

"This initiative to unlock Alberta's unconventional resources offers the potential for decades of employment and community benefits" said Energy Minister Ron Liepert. "The final adjustments to royalty formulas will help industry make important investment decisions for the fall and winter drilling season and maintain Alberta as a competitive jurisdiction for investment."

Building on the work of government and industry that resulted in the release of Energizing Investment in March, the Emerging Resources and Technologies Initiative modifies the royalty rate for wells that require use of high-cost technologies. This strengthens a producer's ability to invest in additional wells, as well as research and development. Stimulating application of new technologies in resources that have not been tapped is expected to increase overall production, resulting in increased economic activity and secure long-term royalty revenue from new resource discoveries.

"These rate modifications are a long-term investment in Alberta's future," added Liepert. In all, energy development in Alberta represents almost 30 per cent of the province's total gross domestic product and directly or indirectly supports almost one in every seven jobs. Over the next 25 years the Canadian Energy Research Institute forecasts that oil and gas development in Alberta has the potential to add $2.5 trillion in new economic activity. More economic activity means more opportunity and more jobs for Albertans.

The Emerging Resource and Technologies Initiative will be reviewed in 2014 and the Alberta government has committed to providing three years notice to industry at that time if it decides to discontinue the initiative.

The government is also initiating two studies to expand the mapping, geological and resource knowledge of shale gas in Alberta and the enhanced oil recovery potential of conventional oil pools in Alberta. The studies will provide important data to help industry make better-informed investment decisions and help guide future government policy development.

Energizing Alberta's investment attractiveness is part of the Government of Alberta's clear plan to support a strong economic recovery. *The Way Forward* will ensure Alberta is in a surplus position in three years; uses cash reserves to protect key programs; continues to invest in public infrastructure; and attracts the investment necessary to maintain jobs and prosperity.

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Backgrounder: Emerging Resources and Technologies Initiative

Media inquiries may be directed to:
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Technical inquiries should be e-mailed to Response.Energy@gov.ab.ca

To call toll free within Alberta dial 310-0000.

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Emerging Resources and Technologies Initiative

New rates to encourage new exploration, development and production from:

- Deeper, higher cost natural gas wells;
- Gas resources within coal seams (also known as coalbed methane);
- Shale gas; and
- Horizontal oil and gas wells.

Coalbed Methane (CBM) New Well Royalty Rate

- The royalty rate will apply to wells that produce exclusively from areas defined by the Energy Resources Conservation Board as coal:
  - Will receive a maximum royalty rate of five per cent for all products for 36 producing months;
  - Volume will be limited to 750-million cubic feet (MMcf) of gas equivalent production; and
  - Benefits will run concurrent with the Natural Gas Deep Drilling Program and the rates for new wells.
- The rate is retroactive to wells that began producing on or after May 1, 2010.

Shale Gas New Well Royalty Rate

- The royalty rate will apply to wells that produce exclusively from formations defined by the Energy Resources Conservation Board as shale:
  - Will receive a maximum royalty rate of five per cent for all products for 36 producing months;
  - No limitation on production volume; and
  - Benefits will run concurrent with the Natural Gas Deep Drilling Program and the rates for new wells.
- The rate is retroactive to wells that began producing on or after May 1, 2010.

Horizontal Gas New Well Royalty Rate

- This is a new lower upfront royalty rate at the start of production to account for the high cost of horizontal drilling.
  - Wells defined as a horizontal gas well by the Energy Resources Conservation Board will receive a maximum royalty rate of five per cent for all products for 18 producing months;
  - Volume will be limited to 500-million cubic feet of gas equivalent production;
  - Benefits will run concurrent with the rates for new wells and the Natural Gas Deep Drilling Program.
- Retroactive to wells that commence drilling on or after May 1, 2010.

Horizontal Oil New Well Royalty Rate

- This is a new royalty rate to provide a lower upfront royalty rate at the start of production to facilitate the recovery of investment costs prior to imposing a higher royalty rate.
  - Wells defined as a horizontal oil well or a horizontal non-project oil sands well by

the Energy Resources Conservation Board will receive a maximum royalty rate of five per cent for all products with volume and production month limits set according to depth of the well; and
  - Benefits will run concurrent with the rates for new wells.
- Retroactive to wells that commence drilling on or after May 1, 2010.

Natural Gas Deep Drilling Program

- Modifications to this program include:
  - Adjusting the vertical depth requirement from 2,500 metres to 2,000 metres;
  - Removing the supplemental benefit ($875,000) for wells that exceed 4,000 metres for wells that commence drilling after May 27, 2010;
  - Re-defining measured depth to better reflect new technology;
  - Including wells drilled into pools discovered prior to 1985; and
  - Making the program an on-going feature of Alberta's royalty regime.
- These modifications are retroactive to May 1, 2010.

For more information go to: http://www.energy.alberta.ca/About_Us/1856.asp

Royalty Curves

Natural Gas Price Royalty Rate

The maximum and minimum rates for natural gas are 36 per cent and 5 per cent respectively, as per Government's announcement on March 11, 2010. The royalty rate is the sum of a price component and the quantity component. The quantity component of the formula remains the same as under the existing gas royalty framework. There are changes to the price component of the gas royalty formula to moderate the increase in the rate at prices higher than $5.25/GJ.

The new formula will be applied to all Alberta Crown production including production from existing wells effective January 1, 2011, with the exception of production from wells that choose to remain on the Transitional Royalty formulas. Wells that remain on the Transitional Royalty formulas will receive those rates until December 31, 2013. For more information go to: http://www.energy.alberta.ca/Org/pdfs/GASFormulas2010.pdf

Conventional Oil Price Royalty Rate

The maximum and minimum rates for conventional oil are 40% and 0% respectively, as per the Government's announcement on March 11, 2010. The royalty rate is the sum of a price component and the quantity component. The quantity component of the formula remains the same as under the existing oil royalty framework. There are changes to the price component of the oil royalty formula to moderate the increase in the rate at prices higher than $535.00/m3.

The new formula will be applied to all Alberta Crown production including production from existing wells effective January 1, 2011, with the exception of production from wells that choose to remain on the Transitional Royalty formulas. Wells that remain on the Transitional Royalty formulas will receive those rates until December 31, 2013. For more information go to: http://www.energy.alberta.ca/Org/pdfs/OILRoyaltyFormulas2010.pdf

Estimated Alberta natural gas resources in trillions of cubic feet (Tcf)

In addition to an estimated 39 Tcf of remaining reserves of conventional gas (source: Energy Resources Conservation Board), Alberta has potential natural gas resources to be unlocked that include:

Coalbed methane approx 500 Tcf (*source: Energy Resources Conservation Board*)

Shale gas approx 850 Tcf (*source: Gas Technology Institute*)

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