

U of A – Houston Presentation

Alberta's Royalty Regime Challenges for the Future

Jeff Shaughnessy, Jay Lines,
Brad Wooley, Craig Simpson
School of Business
University of Alberta

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Alberta's Royalty Objectives

- Extend the economic life of mature pools to maximize recovery of oil reserves.
- To promote the development of new and more efficient technologies.
- To promote the exploration and development of new reserves while providing the province with a fair share of the value of the resource.

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Direct Royalty Sources

- Alberta currently has 4 direct commodity streams of royalty revenue
 - Natural Gas
 - Conventional Oil
 - Oil Sands
 - Coal

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In-direct Royalty Sources

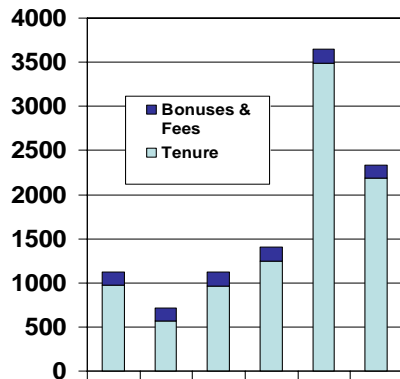
- Additional in-direct resource revenue is realized through:
 - Tenure
 - Bonuses and sales of crown leases
 - Rentals and fees

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Tenure, Bonus and Fee Royalties



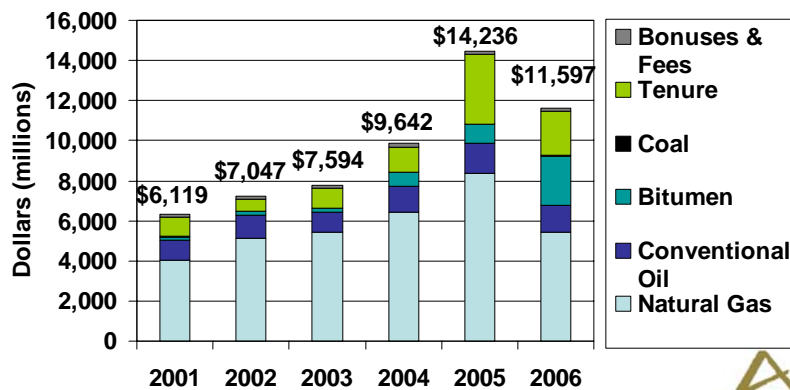
- 2006 - \$2.337 billion
- 2005 - \$3.646 billion
- 2004 - \$1.405 billion
- 2003 - \$1.121 billion
- 2002 - \$0.718 billion
- 2001 - \$1.118 billion

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Royalty Payments



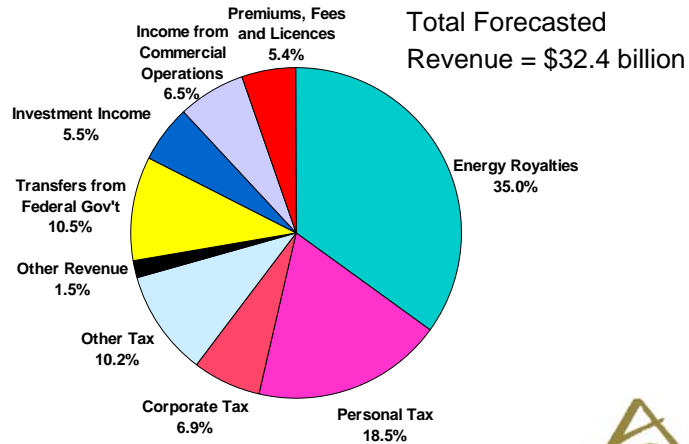
Source: Alberta Energy 2006 Annual Report

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2006 Provincial Budget Forecasted Revenue

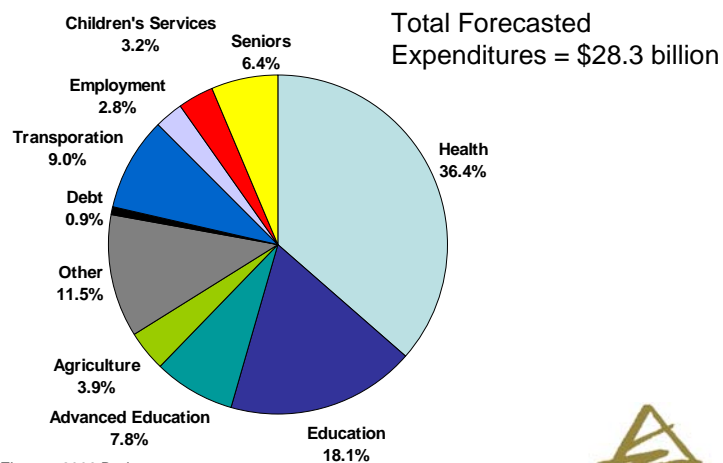


Source: Alberta Ministry of Finance 2006 Budget

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2006 Provincial Budget Forecasted Expenditures



Source: Alberta Ministry of Finance 2006 Budget

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Natural Gas Royalty Program

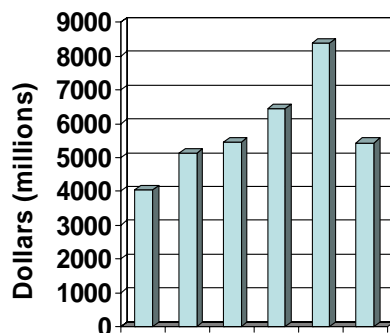
- Royalty Payments are dependent on:
 - Established select price
 - Vintage of gas discovery
 - Old gas
 - New gas
 - Current market price
 - In Stream Component (ISC)
 - Methane, ethane, propane, butane and pentanes-plus
 - Royalty amounts range from 15% to 35% depending on the above factors

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Natural Gas Royalties



- 2006 - \$5.435 billion
- 2005 - \$8.388 billion
- 2004 - \$6.439 billion
- 2003 - \$5.450 billion
- 2002 - \$5.125 billion
- 2001 - \$4.030 billion

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Conventional Oil Royalty Program

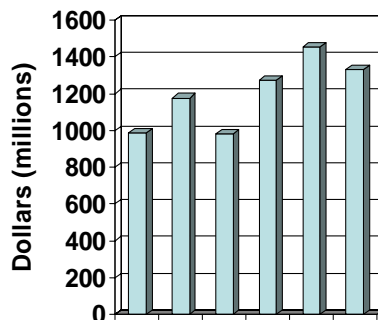
- Royalty Payments are dependent on:
 - Current market price
 - Oil quality
 - Heavy oil
 - Non-heavy oil
 - Well productivity
 - Vintage of original pool production
 - Old oil
 - New oil
 - Third tier oil
 - Royalty amounts range from 10% to 40% depending on the above factors

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Conventional Oil Royalties



- 2006 - \$1.330 billion
- 2005 - \$1.463 billion
- 2004 - \$1.273 billion
- 2003 - \$0.981 billion
- 2002 - \$1.177 billion
- 2001 - \$0.987 billion

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Oil Sands Royalty Program

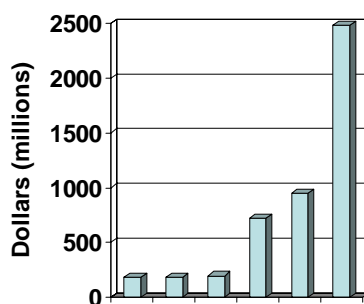
- Revenue minus cost regime
 - 1% of gross revenue until all allowed costs and a return allowance are recovered by the developer
- Once costs recovered, royalty amounts are the greater of:
 - 1% of gross revenues
 - 25% of net revenues

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Oil Sands Royalties



- 2006 - \$2.480 billion
- 2005 - \$0.950 billion
- 2004 - \$0.718 billion
- 2003 - \$0.197 billion
- 2002 - \$0.183 billion
- 2001 - \$0.185 billion

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Natural Gas Royalty Challenges

- Steadily decreasing production
- Steadily decreasing reserves
- Delays in pipeline development
- Recent “Gas over Bitumen” rulings by the Energy Utilities Board

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Conventional Oil Royalty Challenges

- Steadily decreasing production
- Steadily decreasing reserves
- Increasing costs of exploration and extraction

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Oil Sands Royalty Challenges

- Explosion in development causing unforeseen issues
 - Environment
 - Infrastructure
 - Labour shortages
- Revenue minus cost program under review
 - Are Albertan's getting their fair share of royalties?
 - Is the program responsible for the explosion in oil sands development?

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Conclusion

- Historical reliance on conventional oil and natural gas
 - Both are declining resources
- Oil sands are well primed to make up shortfall in royalties
 - Is the current royalty regime allowing Albertan's to obtain full value from this resource?

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For more information

- Contact:
 - Jay Lines
 - lines.jay@syncrude.com
 - Brad Wooley
 - wooley.brad@syncrude.com
 - Jeff Shaughnessy
 - shaughnessy.jeff@syncrude.com
 - Craig Simpson
 - simpson.craig@syncrude.com

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