Oil and Gas Royalties in Alberta

What are Royalties?

A royalty is payment government receives as the energy resource owner for the right to develop it. The Government of Alberta owns 81 per cent of the province's mineral rights and manages those resources on behalf of Albertans. The remaining 19 per cent are owned by the federal government, individuals and corporations. The Alberta government sets conditions for development and royalty rates on behalf of Albertans, the resource owners.

Royalties are only part of the revenues received from energy development. Industry acquires leases, called "land sales," from the province to develop Crown resources through a competitive bid auction, held every two weeks. The province receives revenue from these mineral leases, rentals, and fees, which are not considered royalties, but are part of the return Albertans receive for development of their resources.

Oil Sands

- The oil sands royalty regime is a **"revenue minus cost" approach** and based on the price of West Texas Intermediate (WTI) oil.
- The royalty due from a project depends on whether a project is in a pre- or post-payout.
- A **pre-payout royalty rate** of between 1 and 9 per cent of gross revenue is applied before a project recovers its costs.
- A **post-payout royalty rate** is collected after costs are recovered. The rates are the greater of either 1 to 9 per cent of gross revenue, or 25 to 40 per cent of net revenue.

Oil Sands Royalty Rates

Price WTI C$/bbl	Royalty Rate on Gross Revenue	Royalty Rate on Net Revenue
Below C$55	1.00%	25.00%
C$55	1.00%	25.00%
C$60	1.62%	26.15%
C$65	2.23%	27.31%
C$70	2.85%	28.46%
C$75	3.46%	29.62%
C$80	4.08%	30.77%
C$85	4.69%	31.92%
C$90	5.31%	33.08%
C$95	5.92%	34.23%
C$100	6.54%	35.38%
C$105	7.15%	36.54%
C$110	7.77%	37.69%
C$115	8.38%	38.85%
C$120	9.00%	40.00%
Above C$125	9.00%	40.00%

Natural Gas

- The overall royalty rate for an individual natural gas well depends on the reference price of each of the components of the gas stream, the productivity of the well, its acid gas factor, and the depth of the producing zone.

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- These factors are employed in a sliding scale royalty formula to determine the natural gas royalty rate per well.
- All newly drilled wells are eligible for the **New Well Royalty Rate** which sets the royalty rate to a maximum of 5 per cent on all components for the first 12 months of production or a given production cap, whichever is first.
- The New Well Royalty Rate can be extended for additional time through the Natural Gas Deep Drilling Program, and the Emerging Resources and Technologies Initiative programs for coalbed methane, shale gas and horizontal gas wells.

Natural Gas Component	Royalty Rate
Methane	5% to 36% sliding scale
Ethane	5% to 36% sliding scale
Propane	30% fixed rate
Butane	30% fixed rate
Pentanes	40% fixed rate
Sulphur	16.6667% fixed rate

Conventional Oil

- Conventional oil royalties are set by a sliding scale formula containing separate elements that account for price (WTI price) and well production.
- The royalty rates for conventional oil ranges from 0 to 40 per cent.
- A 0 per cent royalty rate may occur when either the price of oil and/or the well's production levels are extremely low.
- Royalty calculation formulas are based on four density categories: Light, Medium, Heavy and Ultra heavy.
- Prices for these densities are published on Energy's website each month.
- All newly drilled wells are eligible for the New Well Royalty Rate which sets the royalty rate to a maximum of 5 per cent on all components for the first 12 months of production or a given production cap, whichever is first.
- Horizontal wells can extend the reduced New Well Royalty Rate for up to an additional 36 months or an increased production cap, depending on the well's depth.

Impact of Low Oil Prices

- As the royalty rate for the different densities of oil and natural gas components are determined by oil and gas prices, lower prices reduce the royalty rate and consequently reduce the amount of royalties collected.
- Within the oil sands royalties structure, lower oil prices reduce revenue on pre-payout oil sands projects and net income on post-payout oil sands projects. In both cases, it results in a lower royalty rate being applied.

Non-Renewable Resource Revenue in 2014/2015

	Production Volume	Revenue
Bitumen	2.3 million bbl/d	$5.049 billion
Conventional Oil	0.59 million bbl/d	$2.245 billion
Natural Gas	3.6 trillion cubic feet	$989 million
Land Sales (leases sold)	1.3 million hectares	$476 million
(Other-Rentals and fees)	N/A	$172 million
(Other-Coal)	33.8 million tonnes	$16 million
Total		**$8.948 billion**

All figures are from the Department of Energy 2014/2015 Annual Report.